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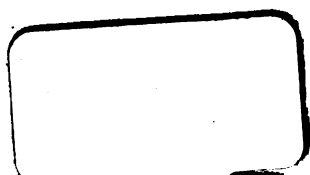
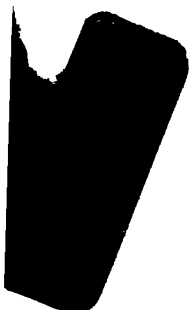
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ELEMENTS OF ACCOUNTS

ELEMENTS OF ACCOUNTS

By CHARLES F. RITTENHOUSE

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ELEMENTS OF ACCOUNTS

FOR

INDIVIDUALS, PROFESSIONAL
MEN AND INSTITUTIONS

BY

CHARLES F. RITTENHOUSE, B. C. S., C. P. A.

HEAD OF DEPARTMENT OF ACCOUNTING, BOSTON UNIVERSITY
COLLEGE OF BUSINESS ADMINISTRATION

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PREFACE

At a time when so many text-books on bookkeeping and accounting are available for school and college use, an author should be expected to give some satisfactory reason for adding one more to the list.

In the study of the principles of bookkeeping and business procedure, it is the opinion of the author that too much importance has always been attached to mercantile accounts to the entire neglect of other practical and interesting fields of study. There are without doubt certain types of schools in which mercantile bookkeeping should be given but limited attention in order that greater emphasis might be placed upon that phase of the work more closely associated with the interests and affairs of the average man and woman. This is particularly true of the bookkeeping taught in girls' high schools, womens' colleges, schools and colleges offering secretarial courses, and in private schools where some attention is given to the training of the students in the fundamentals of business.

The author became especially impressed with this fact while connected with Simmons College as associate professor of accountancy. In the course in secretarial studies in this college bookkeeping occupied a minor place due to the fact that the students were being trained for secretarial positions of a high grade. Few of these students thought of becoming bookkeepers or of taking positions in which such work was of consequence. Experience had shown that when the graduates were called upon to do bookkeeping, it was not of the mercantile type, but was associated with the accounts of institutions, societies, professional men and private individuals. Extensive drill on commercial bookkeeping was therefore of little interest and failed to give a training which was directly applicable to the type of work which the students might be called upon to do.

As a result, it seemed advisable to make radical changes in the courses offered in accounts. With this in view, only such a study was made of commercial accounts as seemed necessary to give the student a knowledge of the fundamental principles of the theory and practice of bookkeeping. Following this, an application of these principles was made to the accounts of societies and institutions, private individuals and professional men and women. Combined therewith, much attention was given to the informational side of the work in order that the students might obtain a practical

knowledge of business customs and procedure, commercial forms and documents, investment terms and records, income tax laws, and of such other topics as would enable a woman to converse intelligently upon business matters and to deal confidently with business and financial problems whether she become a bookkeeper or a housekeeper.

The results of the studies and investigations made in this new field of work were published in 1915 in a private edition of *ELEMENTS OF ACCOUNTS* for use in the author's own classes. No announcement of the publication was ever made but inquiries about the work have come from schools and colleges where similar conditions existed and who had heard of the book, and many hearty words of appreciation have been received from teachers who have made some use of the material in their class rooms. The justification for the present edition is that there seems to be a distinct need for a work of this character and an increasing demand from teachers and school principals for a text which will supply this need; by its publication in a revised form it is hoped that the book will enter a larger field of service.

The original edition found its way into several schools and colleges although it was not intended as a text for general use, but rather as has been said, as a manual for use in the author's own classes. From a pedagogical standpoint it had many imperfections and those who were familiar with it will notice many changes in the present edition. A great deal of new material has been added, the original topics have been enlarged upon and presented in a more complete manner, and the text has been illustrated by numerous forms of commercial papers, financial statements and books of record for various uses. The original edition was directed entirely to the feminine point of view, and although that has remained uppermost in the author's mind in the present edition, yet much material is presented which should be of interest to men and women alike. The text could therefore well be used in mixed classes.

Instructors using the book as a text will find that it contains sufficient material in both theory and practice for a two years' course. The discussion of the general principles of bookkeeping as applied to mercantile accounts in Part I of the text will be found sufficiently elementary for the beginner in any type of school and hence need not be preceded by any other for elementary study. While it is felt that the special topics covered in Part II may be best studied in the order in which they appear, yet this is entirely at the discretion of the instructor. Each branch of the subject is in the main independent of the others and those subjects may be selected which best meet the requirements of a particular school or course of study. Certain types of accounts are treated in the main in a theoretical manner with the practical material limited to short problems

and exercises. There are in addition four practice sets embodied in the text which give the student drill in writing up complete sets of books illustrating business conditions and bookkeeping procedure which closely resemble those found in actual practice. These sets also involve the handling of the more common business papers.

In addition to its use as a text-book it is felt that because of the topics of common interest which are covered, the book should be of value to the general reader searching for information about the practical side of business and financial affairs, to those interested in a more orderly management of personal and household finances, to professional men and women who desire to introduce more business-like methods in the management of their affairs, and for the same reason to the officials of institutions of various types. It is hoped that such persons will find the method of presentation simple and direct, the language free of needless technical terms, and the accounting methods suggested practical and easy of adoption.

The author is indebted to many of his fellow teachers who have shown a helpful interest in the work and who have offered numerous valuable suggestions, and particularly to his former students in Simmons College whose appreciation of the practical training derived from the work was a constant inspiration.

CHARLES F. RITTENHOUSE.

BOSTON, MASSACHUSETTS,
July 1, 1918.

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ELEMENTS OF ACCOUNTS

PART I

A BRIEF SURVEY OF COMMERCIAL ACCOUNTS

CHAPTER I

GENERAL PRINCIPLES.—TERMS AND DEFINITIONS

Bookkeeping may be defined as the process of recording business and financial transactions in appropriate books of account. The books thus kept become a diary of business events; they contain a complete history of the progress of the business, and enable those interested to obtain, at stated intervals, accurate information regarding its financial condition.

There are two methods of keeping books which may be employed, known respectively as *double entry* and *single entry*.

Double entry is a name given to that method of keeping books which is based upon scientific principles. The first principle underlying this method is that every business transaction, regardless of its nature, is an exchange of value in one form for value in another form; as the value of the thing received is always the equivalent of the thing given, there arises what is called the "equation of exchange."

A complete entry for a business transaction must therefore show both the thing received and the thing given; when this is done, it is apparent that the result is a double entry, and it is from this that the method derives its name.

Single entry is a name given to that method of keeping accounts which does not recognize the principle that it is necessary to record both sides of the exchange, the entry being made only for that part of the transaction in which one is most interested. The method obviously results in an incomplete or one-sided record of transactions and is therefore not usually found in practice where importance is attached to sound principles of bookkeeping.

Its use is confined mainly to small businesses in which the bookkeeping is not in competent hands, to societies and small institutions, and to the accounts of private individuals. When used, this method consists as a rule of nothing more than a record of cash received and paid; and, in mercantile houses, of a record of accounts with persons with which the firm has dealings.

In the application of the principles of double entry, two technical terms are used, viz.: *debit* and *credit*. These terms always apply to the

two-fold effect of every transaction, *debits* relating in general to values received, and *credits*, to values given. For convenience in classification, things received are always placed to the left side of a group of items, while things given appear to the right. The terms debit and credit therefore denote the position which an item occupies in an account.

An *account* is a group of items of like character; it is divided into two parts, the left or debit side being for items of that class which have been received; the credit side for items which have been given. For example, a Cash account is a collection of cash receipts and disbursements, receipts being shown on the left side as debits to the account, while payments are shown to the right as credits.

Accounts may be broadly classified under four heads, as follows:

- (a) Accounts with cash, promissory notes, trade acceptances and other media of exchange.
- (b) Accounts with persons.
- (c) Accounts with property.
- (d) Accounts with income or profit, and with expenses or losses.

The *ledger* is the book of accounts, as it is in this book that accounts are opened with the various items which are classified under different heads. It is the book in which the debit and credit items arising from all business transactions are assembled under their proper titles and on the proper sides of the accounts.

In addition to the ledger, one or more books of original entry are needed in every business; the most common books found in a mercantile business are the journal, cash book, purchases journal and sales journal.

Definition of Terms.

A *single proprietorship* is a business conducted by one person.

A *partnership* is a business formed as the result of an agreement between two or more individuals to contribute thereto their individual capital, skill, and labor, with the understanding that profits are to be divided or losses borne in certain proportions.

A *corporation* is a legal organization effected under the laws of a particular state, by which a business is conducted under a distinct name and independently of the members which compose it. The ownership interest is represented by transferable shares of stock, the owners of which are called stockholders.

An *asset* is anything of value owned by a business. It may consist of any kind of property, personal or real, tangible or intangible. An asset is frequently spoken of as a resource.

A *liability* is a debt or an obligation of a business.

Proprietorship relates to the owner's or proprietor's interest in a business. This is determined by the following equation:

$$\text{Assets} - \text{Liabilities} = \text{Proprietorship.}$$

In a single proprietorship, this interest is represented by accounts with the proprietor showing his investment, drawings, and accumulation of profits; in a partnership, such accounts would be kept with each partner; in a corporation the ownership interest is shown by an account with Capital Stock and with Surplus.

The proprietorship interest is usually expressed by the terms: *Net worth*, *present worth*, or *capital*.

The *investment* relates to the amount of cash or other property contributed to a business by a proprietor, partner, or stockholder.

A *Balance Sheet* is a statement of the assets, liabilities and proprietorship of a business as of a certain date. This statement gives expression to the equation stated above, and its purpose is to show the exact financial condition of a business. This statement is also called a Statement of Resources and Liabilities, or a Statement of Assets and Liabilities.

A *profit* results from the sale of a commodity at a price in excess of its purchase price or cost of production.

The term *income*, while often used in the same sense as *profit*, relates more accurately to the return realized from labor, from a profession, from invested capital, or from property.

A *loss* results from the sale of an article for an amount less than the purchase price or cost of production; this term is commonly used in bookkeeping in the same sense as the word *expense*, referring to the necessary costs or expenses of carrying on a business.

A *Profit and Loss Statement* is a statement of the profits and expenses of a business for a certain period, the items being arranged in such a manner as to give detailed information regarding the trading activities of the business and showing the final net profit or loss for the period. This statement is also called a Loss and Gain Statement, or a Trading and Profit and Loss Statement.

A *fiscal period* relates to a certain period of time at the close of which financial statements are prepared and the books of account closed. A fiscal period is usually a year in length, although the term may refer to a semi-annual or quarterly division of the year.

In general, business concerns may be grouped under the heads of *trading* or *mercantile* houses and *manufacturing* concerns.

A trading or mercantile concern buys and sells a finished product; a manufacturing concern buys raw material and employs labor in the conversion of that raw material into a finished product, which is then sold.

Two other classes of business are *wholesale* and *retail*. The wholesale house buys from the jobber or manufacturer in large quantities and sells to the retailer. A retail house buys from the wholesaler and sells in turn to the consumer.

An *inventory* is an itemized list of goods or other property on hand as of a certain date.

CHAPTER II

FUNCTIONS OF ACCOUNTS PECULIAR TO A MERCANTILE OR TRADING BUSINESS

Following is a list of a few elementary accounts which would be found in almost any mercantile business.

- Cash
- Accounts Receivable
- Accounts Payable
- Notes Receivable
- Notes Payable
- Proprietor's or Partner's Capital
- Proprietor's or Partner's Drawings or Current Account
- Purchases
- Sales
- Freight and Cartage In
- Selling Expense
- General Administrative Expense
- Maintenance of Real Estate
- Land
- Buildings
- Furniture and Fixtures or Office Equipment

Prior to taking up the study in detail of these ledger accounts, the following simple business transactions may be used in an oral discussion of the elementary principles of debit and credit, their relation shown to certain of the above ledger accounts, and the equation of exchange that exists in all business transactions pointed out.

EXERCISE A

1. Thomas Green invests cash \$5,000 in a business.
2. He buys merchandise for cash amounting to \$500.
3. He sells merchandise for cash amounting to \$300.
4. He sells merchandise for cash amounting to \$100.
5. He buys merchandise for cash amounting to \$750.
6. He buys merchandise on account from Theodore Smith amounting to \$475.
7. He pays rent for January in cash, \$150.
8. He sells merchandise for cash amounting to \$600.
9. He sells merchandise on account to H. B. Marcus amounting to \$348.
10. He withdraws cash for personal use, \$50.

EXERCISE B

1. Bought merchandise for cash, \$700.
2. Paid rent of store for one month, \$100.
3. Sold merchandise for cash, \$500.
4. Bought merchandise from Thomas Stewart on account, \$1,500.
5. Bought merchandise for cash, \$600.
6. Sold merchandise to A. J. Howard on account, \$550.
7. Paid clerks' wages for week, \$120.
8. Received note of 30 days from A. J. Howard in payment of bill for \$550. *①*
9. Gave note to Thomas Stewart for \$1,000 to apply on account.
10. Sold merchandise to A. Jones & Co. on account, \$320.
11. Bought merchandise from Thomas Stewart on account, \$500.
12. Paid Thomas Stewart \$250 to apply on account.
13. Paid telephone bill for month, \$20.
14. Proprietor withdrew cash, \$25.
15. Sold merchandise to J. C. Carter on account 30 days, \$200

EXERCISE C

1. L. A. Barrett invests cash \$4,000 in a certain business.
2. He pays rent for one month in cash, \$200.
3. He buys stationery and office supplies, \$60.
4. He buys merchandise for cash, \$600.
5. He buys office furniture and equipment, for cash, \$500.
6. He sells merchandise for cash, \$350.
7. He pays clerks' wages, \$100.
8. He sells merchandise for cash, \$200.
9. He buys merchandise for cash, \$800.
10. He buys merchandise on account from Thomas Moore, \$450.
11. He sells merchandise for cash, \$300.
12. He sells merchandise on account to Robert Grant for \$250.
13. He withdraws \$100 for personal use.
14. He pays running expenses, \$75.
15. He buys merchandise for cash, \$500.
16. He sells merchandise to H. M. Hunt on account, \$175.
17. He pays clerks' wages, \$100.
18. He makes an additional investment of \$1,000.
19. He sells merchandise for cash, \$300.
20. He receives a note for \$175 from H. M. Hunt in full of account.

Functions of General Ledger Accounts.—The study of the function of an account involves a clear understanding of the following points:

- (a) The purpose of the account and the type of transaction recorded thereunder.
- (b) For what the account is debited and credited.
- (c) What the balance of the account represents and what disposition is made of it in preparing financial statements.

General Rules for Debiting and Crediting.

It will be observed that the following general rules apply to debiting and crediting:

1. Debit the receiver, the thing received, and that which represents an expense or a loss.
2. Credit the giver, the thing given and that which represents a profit or an income.

In explanation of the first rule stated above, "the receiver" refers to the person or firm which receives something of value from the business; the "thing received," to the cost of the property or commodity acquired under whatever account it is to be classified; an "expense or a loss," to any expenses or losses incurred in conducting the business under whatever accounts such items are to be classified.

In the second rule, "the giver" refers to the person or firm giving value to the business; "the thing given," to the cost of the property or commodity parted with by the business; "an income or a profit," to any profit made or income derived by the business from any source.

The Cash Account.

The term cash as used in bookkeeping includes money, both bills and coin, checks, bank drafts, express and postal money orders, and anything which circulates as a common medium of exchange.

The function of the Cash account is expressed as follows:

CASH	
<p>Debit:</p> <p>With all cash received.</p> <p>In practice, debits to this account are made only at the close of each month for the total receipts of cash as shown by the Cash book.</p>	<p>Credit:</p> <p>With all cash paid.</p> <p>In practice, credits to this account are made only at the close of each month for the total payments of cash as shown by the Cash book.</p>

The balance of this account, which is always represented by the excess of the debit total over the credit, represents the cash on hand and is an asset.

Accounts with Persons.

Personal accounts are accounts kept with individuals, firms and corporations with which the business has dealings. Inasmuch as the greater amount of all business is transacted on credit it becomes necessary to keep accounts with all concerns with which we have credit relations.

Personal accounts comprise accounts both with *debtors* and *creditors*.

A *debtor* is one who owes money or its equivalent.

A *creditor* is one to whom money or its equivalent is owed.

Taken collectively, accounts with debtors are called Accounts Receivable, while Accounts Payable is a term which relates to accounts with creditors.

The functions of these two classes of personal accounts are stated as follows:

ACCOUNTS RECEIVABLE
(Separate account with each customer)

Debit:

With sales of merchandise to a customer. This debit usually comes from the Sales Journal.

Credit:

With cash received to apply on, or in full of, the account of a customer, such items coming from the cash receipts book.

With a note received from a customer to apply on his account, as shown by entries in the journal.

With allowances made to a customer for sales returns, for defective goods, goods damaged in shipment, etc. Such postings come either from the journal or from a Sales Returns and Allowances Journal, if such is used.

The balance shown by a customer's account is normally a debit and represents the amount still due from him. This is an asset and is shown on the balance sheet combined with amounts due from all other trade debtors under the heading of Accounts Receivable.

In practice, the individual accounts with customers are kept in a special ledger called a Customers Ledger, or a Sales Ledger. The Accounts Receivable account then becomes a controlling account kept in the general ledger as a substitute for the individual accounts appearing in the special ledger.

ACCOUNTS PAYABLE
(Separate account with each creditor)

Debit:

With cash payments made to a creditor to apply on, or in full of, the amount due him.

With a note issued to a creditor to apply on his account.

With allowances granted by a creditor for purchase returns, for defective goods, etc. Such postings come from the journal or from the Purchase Returns and Allowances Journal, if such a book is used.

Credit:

With purchases of merchandise from a creditor. This credit usually comes from the Purchases Journal.

The balance shown by a creditor's account is normally a credit and represents the amount still due him. This is a liability and is shown on the balance sheet combined with amounts due all other trade creditors under the heading of Accounts Payable.

In practice, the individual accounts with creditors are kept in a special ledger called a Creditors Ledger or a Purchases Ledger. The Accounts Payable account then becomes a controlling account kept in the general ledger as a substitute for the individual accounts appearing in the special ledger.

Promissory Notes.

A *promissory note* is a promise in writing to pay a certain sum of money at a definite time.

The person, firm or corporation which issues the note is called the *maker* or *drawer*; the one in whose favor it is issued, the *payee*.

A *negotiable* note is one so drawn that it may be transferred by the payee to a third party; such a note must contain the phrase, "to the order of;" "or order;" or "or bearer."

A *non-negotiable* note is one which cannot be transferred.

The transfer in the case of a negotiable note is effected by *endorsement* of the note and proper delivery.

The most common forms of endorsement are (1) blank; and (2) full or special.

A *blank* endorsement consists only of the endorser's name written across the back of the left end of the instrument.

A *full* or *special* endorsement reads as follows. "Pay to the order of —," followed by the signature of the endorser.

It was formerly a common practice for the debtor to issue a promissory note to a creditor to apply on account of goods bought. Such notes, often spoken of as "Merchandise Notes," are not common at the present time. If a merchant has insufficient working capital to make payment for goods bought or to discount his bills, he usually arranges with his bank for a loan. The commercial bank has thus become the agency through which most business houses are financed.

If a loan is arranged for at the bank, the usual procedure is for the bank to discount the note of the borrower, which note is drawn for the period agreed upon.

In discounting the note, interest is charged by the bank in advance at a given rate per cent. for the time the note is to run, such interest being deducted from the face of the note, the proceeds being credited to the account of the borrower.

NOTES RECEIVABLE

Debit:

At face value with all notes received by the business.

Credit:

At face value with all notes of others which are paid in full; with partial payments made thereon; with face value of notes transferred to third parties or discounted at bank (unless a Notes Receivable Discounted account is opened for discontinued notes).

The balance is a debit showing the face value of notes on hand, and is an asset.

NOTES PAYABLE

Debit:

At face value with notes paid in full; with partial payments made thereon.

Credit:

At face value with notes issued by the business.

The balance is a credit showing the face value of all notes not yet paid by the business, and is a liability.

PROPRIETOR'S OR PARTNER'S CAPITAL (OR INVESTMENT ACCOUNT)

Debit:

With withdrawal of any part of the amount invested in the business.

Credit:

With investment of cash, merchandise, or other property either real or personal.

With additional investments made with the intention of permanently increasing the capital investment.

The balance of the account is a credit and represents the net investment of the proprietor or partner. It should be shown on the balance sheet as a part of the net worth.

PROPRIETOR'S OR PARTNER'S DRAWINGS OR CURRENT ACCOUNT

Debit:

With cash, merchandise or other property drawn for personal use, not to be regarded as a reduction of the original investment.

With personal debts or expenses paid, from the funds of the business.

At the close of a fiscal period, with the net loss, should there be one, or in a partnership with the proportionate share thereof.

Credit:

At the close of a fiscal period with the net profit or the proportionate share thereof.

The balance of this account is normally a credit and represents the amount of undrawn profits of the proprietor or partner. If it is desired to leave such profits in the business as a permanent addition to capital, the balance of the account should be transferred to the capital account.

If the account shows a debit balance, either the business has suffered a loss or the drawings have been in excess of the profits. A debit balance may be charged against the capital account, or it may be carried forward as a debit balance to be offset by future profits.

The proprietor's or partner's interest in the business would be shown in the balance sheet by the balance of his capital account, plus or minus the balance of his drawing account.

Accounts with Trading Goods.

PURCHASES

Debit:

With the cost price of all goods purchased. This charge is made usually only once a month representing the total purchases for the month as shown by the Purchases Journal.

Credit:

With the cost of goods returned to creditors and with allowances made by creditors, unless a separate Purchases Returns and Allowances account is kept.

With goods taken from stock by the proprietor and charged to him at cost price.

With goods destroyed by fire or donated to charity.

With goods sold to employees at cost, unless a special account is kept with such sales.

At the end of the fiscal period when closing the books with the cost of goods sold during the period.

Previous to closing the books, the balance represents the net cost of goods purchased (less purchases accounted for by goods taken from stock by proprietor, destroyed by fire or otherwise, or given away).

After closing the books, following the final credit to the account stated above, the account shows the cost of goods on hand and is carried forward as the inventory at the beginning of the new period.

The cost of goods on hand at the close of a fiscal period is frequently transferred when closing the books to a separate Inventory account.

SALES

Debit:

With sales returns and allowances, unless a separate account is kept with Sales Returns and Allowances.

Credit:

With goods sold. This credit is usually made only once a month from the Sales Journal, such credit representing the total sales for the month.

The balance of the account represents the net sales for the period.

At the time of closing the books, the method generally followed is to debit the Sales account with the cost of goods sold during the period; the account would then show the gross profit on sales which amount would be closed into Profit and Loss.

FREIGHT AND CARTAGE IN

Debit:

With the cost of freight, express and hauling on purchases of trading goods.

Credit:

Freight and Cartage In is generally regarded as an addition to the invoice cost of goods bought and at the end of a fiscal period this account is closed into the Purchases account.

CHAPTER III

OPERATING EXPENSES—PROPERTY AND EQUIPMENT

The operating expenses of a trading concern may for our present purpose be classified under the following general heads:

Selling Expense.
General Administrative Expense.
Maintenance of Real Estate.

These expenses would not all necessarily be found in every business, while in other businesses additional classes or groups may be necessary.

It should also be understood that these accounts are all *general* accounts; in many cases, separate accounts would be kept with the more important items appearing under each.

The following expense items would be included under the classes given:

SELLING EXPENSE

Debit with the following items:

Salaries and wages of sales manager, advertising manager, salesmen, assistants, clerks, stenographers, etc.
Stationery, postage and office supplies used in the Sales offices.
Taxes, insurance and depreciation of sales department furniture and equipment.
Newspaper and magazine advertising, catalogs and price lists, and display advertising.
Proper proportion of rent.
Insurance on stock.
Taxes on stock.
Freight on returned goods.
Shipping cartons, boxes, labels, etc.

GENERAL ADMINISTRATIVE EXPENSE

This account would be debited with the following:

Salaries of officers.
Salaries and wages of general office clerks.
Stationery, postage and supplies.
Telephones and telegrams.

Carfare.

Directors' fees.

Taxes, insurance and depreciation of office equipment.

Proper proportion of rent.

State and Federal income taxes, corporation taxes and fees.

Expense of annual audit.

MAINTENANCE OF REAL ESTATE

This account would be debited with the following:

Taxes

Insurance

Depreciation

Repairs

Heating and lighting

Janitor service.

Real Estate.

If improved property is bought consisting of land and buildings erected thereon, a single account may be opened with Real Estate, charging it with the entire cost of the property. A better practice, however, is to open separate accounts with land and with buildings, the separate cost of each being determined by appraiser's valuation or by some other arbitrary method.

If land is bought upon which a building is later erected the separate cost of each is, of course, easily determined.

The principal reason for carrying the cost of the land and building in separate accounts is that the building is subject to steady depreciation and involves regular maintenance charges, while the value of land to a going concern neither depreciates nor appreciates.

The functions of a Land and a Buildings account are stated as follows:

LAND

Debit:

With the cost of land purchased including legal expenses and fees incident to passing title.

With the cost of land improvements such as surveying, plotting, laying out drives, walks, laying of gas and water mains, etc.

Credit:

With the cost of land sold. (The difference between the cost and selling price of land sold should be charged to some expense account or credited to some income account, according to whether the selling price is less or greater than the cost.)

The balance of this account represents the cost of land owned and is an asset.

BUILDINGS

Debit:

With cost of building if bought.

With cost of construction if the concern erects its own building. (This includes architects' fees, contractor's bills and all other expenses incurred in construction.)

With the cost of permanent additions or improvements.

Credit:

With cost of buildings sold or destroyed.

The balance of this account represents the cost of buildings owned, and is an asset.

FURNITURE AND FIXTURES OR OFFICE EQUIPMENT

Debit:

With the cost of furniture and equipment purchased. (This includes desks, chairs, tables, typewriters, adding machines, safes, counters, and all other equipment which has an estimated life of not less than two to five years.)

Credit:

With the cost of furniture and equipment sold, discarded, or exchanged.

The balance of this account represents the cost of furniture and equipment owned and is an asset.

CHAPTER IV

EXERCISES FOR THE STUDENT—THE TRIAL BALANCE

The following exercises are intended for class discussion and for work to be assigned to the student. They consist of business transactions which are to be analyzed by the student into their corresponding debits and credits in accordance with the function of the accounts which have been studied, after which each transaction is to be entered on ledger paper on the proper sides of the accounts.

Before beginning work on the first exercise, students are advised to study the ledger illustrated in Model 5 on page 257.

EXERCISE 1

The transactions in this exercise involve the use of accounts with the proprietor, Cash, Furniture and Fixtures, General Administrative Expense, Purchases, and Sales.

Open the accounts on a separate sheet of ledger paper, one-fourth of a page allowed to each, and numbering the pages used.

Enter on the proper side of each account the debit and credit of each of the following transactions:

- Jan. 1, 19—. Robert Shaw establishes a wholesale dry goods business, investing \$10,000 in cash.
2. Bought, for cash, furniture and fixtures costing \$1,200.
 2. Bought office supplies for cash, \$50.
 2. Bought, for cash, coal for use in the store, \$72.
 3. Bought, for cash, of the Arlington Mills merchandise, \$3,200.
 4. Bought of A. Chase & Co., for cash, merchandise costing \$1,650.
 5. Sold merchandise to Charles Burton & Sons for cash, \$1,975.
 6. Sold merchandise to W. A. Wallace for cash, \$2,750.
 6. Bought of Acme Shirtwaist Co., for cash, merchandise, \$450.
 7. Sold merchandise to Thomas Perkins & Co. for cash, \$800.
 8. Paid rent for the month in cash, \$100.
 8. Paid clerks' wages for the week, \$60.
 9. Sold merchandise to Joseph Wilson for cash, \$1,370.
 10. Bought of Hub Manufacturing Co., for cash, merchandise, \$1,250.

EXERCISE 2

The transactions in this exercise involve the use of accounts with the proprietor, Cash, Purchases, Sales, General Administrative Expense, W. G. Keene, K. C. Bates, George K. Gordon, and E. W. Lowell.

These accounts should be opened on a separate sheet of ledger paper, one-half of a page allowed to each, except the last three accounts, all of which are to be placed on one page. The ledger pages should be numbered.

- Jan. 1, 19—. Richard Baker invests \$10,000 cash in a certain business.
2. He rents a store room paying \$200 rent for the month.
 3. He buys merchandise for cash, \$2,645.
 4. He buys merchandise for cash, \$1,420.78.
 5. He sells merchandise for cash, \$862.50.
 6. He buys merchandise from W. G. Keene on account, \$462.50.
 8. He sells merchandise for cash, \$389.70.
 9. He sells merchandise to K. C. Bates on account, \$1,140.
 10. He buys merchandise for cash, \$482.75.
 11. He reduces his investment by \$1,000.
 12. He pays a bill of \$25 for stationery and office supplies.
 13. He buys merchandise from George K. Gordon on account, \$225.
 15. He sells merchandise to E. W. Lowell on account, \$575.40.
 16. He pays W. G. Keene \$200 to apply on account.
 17. He sells merchandise to K. C. Bates on account, \$350.
 18. He receives cash from K. C. Bates to apply on account, \$500.
 19. He sells merchandise to E. W. Lowell on account, \$478.50.
 20. He buys merchandise from George K. Gordon on account, \$280.
 22. He pays a coal bill in cash, \$120.
 23. He receives a check from E. W. Lowell to apply on account, \$250.
 24. He pays W. G. Keene \$100 to apply on account.
 25. He sells merchandise for cash, \$640.
 26. He sells merchandise to K. C. Bates on account, \$480.
 27. He buys merchandise from W. G. Keene on account, \$500.
 29. He receives cash from K. C. Bates in payment of bill of goods sold him the 17th.
 30. He buys merchandise for cash, \$1,080.
 31. He pays the following expense bills: Telephone, \$10; electric light, \$40; salaries of office help, \$300.

The Trial Balance.

A *trial balance* is a test of the ledger made periodically in order to prove that the accounts are in balance.

As each transaction is composed of a debit and credit of equal amount, it follows that the sum of all debits should equal the sum of all credits. The ledger should therefore always be in balance and in order to assure ourselves of this, a trial balance is taken, usually at the end of each month.

The trial balance is one of the most important features of double entry bookkeeping, for the reason that it not only tests the accuracy of one's work, but provides also a summary of all transactions properly classified. As a proof of the accuracy of the clerical work, however, the trial balance is not infallible, for the reason that an error is not detected if both sides of the ledger are equally affected.

A trial balance may now be taken from the ledger prepared in Exercise I, the work being done as follows:

1. Foot in small figures the debit and credit sides of each account.
2. At the top of a sheet of journal paper write the heading "Trial Balance, January 31, 19—." List the accounts beneath in the order in which they appear in the ledger, placing the number of the ledger page of the account in the narrow folio column to the left.
3. On a line with each account, enter the total of the debit and credit sides of the account in the debit and credit columns of the trial balance.
4. Foot both debit and credit columns of the trial balance and rule as shown in the illustration which follows.

A trial balance may show the footing of each side of the account, or only the difference between the two sides. While the latter method is the one more generally followed, the student should understand the advantages of each.

The following is an illustration of the form and arrangement of a trial balance. The accounts correspond to those in Exercise I, but the amounts are different. (See also Model 6, page 261.)

TRIAL BALANCE, JANUARY 31, 19—

1	Richard Baker, Capital.....	\$ 50	\$7,500
1	Cash.....	11,400	4,200
1	Purchases.....	8,900	
2	Sales.....		9,500
2	General Administrative Expense.....	550	
2	W. G. Keene.....	300	900
3	K. C. Bates.....	1,100	500
3	George K. Gordon.....		200
3	E. W. Lowell.....	800	300
		<hr/>	<hr/>
		\$23,100	\$23,100

EXERCISE 3

In this exercise the transactions will be classified under the following accounts which should be opened on ledger paper, one-fourth of a page allowed for each except Cash, for which one-half page should be allowed.

Cash
F. W. Dunn
Notes Receivable
W. A. Warren
Notes Payable
Thomas W. Baxter—Investment
Sales
John J. Cooper
W. A. Smart
Furniture and Fixtures
C. W. Wiggin & Co.
Purchases
Selling Expenses
General Administrative Expenses

The function of the above accounts should be thoroughly reviewed.

- June 1. Thomas W. Baxter invests \$12,000 in a wholesale business, \$8,000 of which is in cash and \$4,000 in merchandise. *Trans*
2. He buys office furniture and equipment for cash, \$2,000.
 3. He pays cash for a bill of \$62.50 for stationery and office supplies.
 3. He pays rent for the month, \$250.
 3. He buys merchandise for cash, \$1,262.40.
 4. He buys merchandise on account from W. A. Warren, \$3,150.
 4. He sells merchandise for cash, \$840.
 5. He sells merchandise on account to John J. Cooper, \$1,000.
 6. He sells merchandise on account to F. W. Dunn, \$752.80.
 6. He pays salesmen's wages for the week, \$200; office clerks wages, \$120.
 8. He buys merchandise on account from C. W. Wiggin & Co., \$1,420.
 9. He receives check from John J. Cooper for \$500 to apply on account.
 10. He receives a note at 10 days from F. W. Dunn in settlement of the goods sold him on the 6th.
 11. He sells merchandise on account to W. A. Smart, \$825.
 11. He buys merchandise on account from W. A. Warren, \$575.20.
 12. He receives check for \$200 from W. A. Smart to apply on account.
 13. He sells merchandise to F. W. Dunn on account, \$1,180.
 13. He pays wages of salesmen and office clerks (same amounts as June 6).
 15. He issues a 60 day note of \$1,000 to W. A. Warren to apply on account.
 16. He sells merchandise on account to W. A. Smart, \$382.75.
 17. He receives cash from John J. Cooper in payment of balance due on bill of June 5.
 18. He sells merchandise to F. W. Dunn on account, \$327.50.
 19. He receives note at 30 days from W. A. Smart to apply on account, \$500.
 20. He receives a check from F. W. Dunn in payment of his note due today.
 20. He pays wages of salesmen and office clerks.

22. He buys stamped envelopes for cash, \$20.
23. He sells merchandise on account to W. A. Smart, \$185.40.
24. He buys merchandise on account from C. H. Wiggin & Co., \$272.50.
25. He draws against his investment, \$500.
26. He receives cash from F. W. Dunn to apply on account, \$600.
27. He pays wages of salesmen and office clerks.
29. He sells merchandise on account to John J. Cooper, \$862.75.
30. W. A. Smart returns for credit merchandise to the amount of \$25 sold him on the 23d. Credit is allowed.
30. He pays sundry general expense bills amounting to \$72.

A trial balance should now be taken on journal paper, entering only the differences between the two sides of each account.

CHAPTER V

THE JOURNAL AND CASH BOOK

The journal is a book of original entry in which transactions are recorded in such a way as to show the accounts which are debited and credited in a business transaction. Used as it always is in conjunction with other special books of original entry, only those entries are recorded in the journal which do not naturally belong in any of the special books.

Journalizing is the process of recording entries in the journal; further than this, it is a term which is often applied to the mental process of analyzing a transaction into its proper debit and credit, preparatory to making the entry therefor in any books of account which may be kept. In this respect, journalizing is the fundamental process in bookkeeping.

In order that the journal as a book of original entry and the process of journalizing may be thoroughly understood, in the two exercises which follow all transactions are to be journalized, due attention being given to the arrangement and appearance of the work.

Before beginning work on the first exercise, students are advised to study carefully the journal illustrated in Model 1 on page 253.

EXERCISE 4

Journalize the transactions in Exercise 2, recording the entries on journal paper.

Posting.

Posting consists in transferring the debits and credits from the journal and other books of original entry to the ledger. By this process all debits and credits of each account from all sources and on all dates are summarized preparatory to taking a trial balance. The posting is generally done from day to day and is kept up to date as nearly as possible in order that the trial balance may be taken promptly.

As a part of the process of posting, all postings should be pagged in the following manner.

(a) In the folio column of the journal or other book of original entry enter the number of the ledger page on which the account appears.

(b) In the folio column of the ledger, enter the number of the page of the journal or other book of original entry from which the posting came, together with the initial letter of said book.

After all transactions in Exercise 4 above have been recorded in the journal, the student should compare the debits and credits as they appear in the journal with the debits and credits to the ledger accounts as they were set up when Exercise 2 was prepared. At the same time, all items should be folioed or paged, as explained above. A trial balance has already been taken of the ledger as a part of the work required in Exercise 2.

EXERCISE 5

This exercise is a continuance of the transactions in Exercise 4. Begin on a new page in the journal.

- Feb. 1. Gave note at 10 days to W. G. Keene to apply on account, \$250.
2. Received note at 30 days from E. W. Lowell to apply on account, \$500.
3. Sold merchandise to K. C. Bates on account, \$450.
4. Paid rent for February, \$200.
5. Richard Baker drew against his investment, \$500.
6. We returned merchandise to George K. Gordon and are allowed credit, \$60.
8. Received check from K. C. Bates to apply on account, \$500.
9. Bought merchandise from W. G. Keene on account, \$782.
10. Sold merchandise to E. W. Lowell on account, \$750.
12. E. W. Lowell sent us a check for \$600, \$500 of which was in payment of note due today; the remainder to apply on account.
12. Sold merchandise to Thomas Watson amounting to \$1,000; terms 60 day note.
15. Received note at 60 days from Thomas Watson in payment of bill of the 12th.
16. Gave note at 30 days to W. G. Keene to apply on account, \$600.
18. E. W. Lowell was allowed credit for \$75 on certain goods bought by him on the 11th which were damaged in shipment.
19. Bought merchandise on account from W. G. Keene, \$300.
20. Bought stationery and office supplies for cash, \$25.
22. Sold merchandise to E. W. Lowell on account, \$400.
24. Received cash from K. C. Bates in payment for bill of merchandise sold him the 3d.
25. Sold merchandise on account to John C. Winter, \$387.50.
26. Bought merchandise from Henry F. Adams on account, \$1,238.50.
27. Pay the following expense bills: telephone, \$12.50; electric light, \$47; salaries of office help, \$300.

After all the above entries have been journalized, they are to be posted to the ledger immediately beneath the last postings for January; any additional accounts should be opened on a second sheet of ledger paper, two accounts to a page.

After the posting has been completed a trial balance should be taken under date of February 27. This trial balance should combine both January and February items; that is, the postings for February should be added to the January totals and the amounts thus obtained transferred to the trial balance.

Submit the January and February work to your instructor for examination.

The Cash Book.

The *cash book* is a special journal in which cash receipts and disbursements are recorded, thus giving a complete record of all cash transactions entirely distinct from other types of transactions. Inasmuch as the receipts and payments of cash are quite numerous in any business, it follows that the cash book is, in many instances, the most important book of original entry.

In its simplest form, the cash book is a double-page book, quite similar to the ordinary journal. All cash receipts are recorded therein on the debit or left-hand page of the book, and all payments, on the credit or right-hand page.

In recording transactions in the cash book, exactly the same principles of debit and credit apply as have been learned in connection with the earlier work. If, in the analysis of a transaction, Cash is to be debited, this is accomplished by making the entry on the debit side of the cash book, and therefore the only part of the entry which needs to be written is the credit. The same reasoning applies to recording an entry which requires a credit to Cash.

At any time, the difference between the totals of the debit and credit sides of the cash book shows the cash balance and should equal the cash on hand in drawer and in bank.

The cash book is balanced at the close of each month. At this time, the total receipts for the month as shown by the debit footing are posted in one amount to the debit side of the Cash account; the total payments as shown by the credit footing being likewise posted to the credit side.

In connection with the above, the student should make a careful study of Model 2 on pages 254 and 255.

EXERCISE 6

Record the following transactions in a cash book designed on journal paper according to the Model on pages 254 and 255.

March 1, 19—. Balance, \$2,972.60.

2. H. C. Beal pays us \$300 to apply on account.

3. We send Silas Perkins a check for \$640 to apply on account.
 4. We pay rent of store for March, \$200.
 5. We pay freight bills on goods purchased, \$76.80.
 6. John C. Winter pays his note due today, \$450. (No interest.)
 8. Cash sales of merchandise for the week, \$127.60.
 9. Received check from Harry A. Norton in full payment of bill of February 20, \$387.90.
 10. Pay note due today held by J. S. Snow for \$500.
 11. Loan W. E. Horton \$100 and take his note at 60 days as security.
 12. Buy 25 tons of coal at \$8 for use in heating the building.
 13. Receive expense report of \$72.75 from A. P. Smart for traveling expenses to date, and we send him a check for reimbursement.
 13. Payroll for two weeks; office help, \$100; traveling salesmen, \$200.
 16. Cash sales for the week, \$92.50.
 17. Receive \$200 from C. W. White to apply on his note.
 18. The proprietor, J. M. Harter withdraws cash for personal use, \$50.
 19. Buy mileage book for use by our traveling salesmen, \$20.
 20. Buy typewriter, \$100.
 22. Cash sales for week, \$102.20.
 23. Received check from W. A. Walters to apply on account, \$1,000.
 25. Pay bill for advertising, \$176.50.
 26. Pay bill for stationery and office supplies for use in the purchasing department, \$24.50; shipping department, \$10.80.
 27. Payroll for two weeks; general office help, \$100; traveling salesmen, \$180; shipping clerk, \$20.
 29. Cash Sales for week, \$117.25.
 30. Receive check from H. C. Beal in full of account, \$362.
 31. Pay the following bills; telephone, \$12; electric light, \$34.
- Balance the cash book, open general ledger accounts in the ledger, post, and take a trial balance.

Oct 26

CHAPTER VI

PURCHASES AND SALES JOURNALS

The Purchases Journal.

A *purchases journal* is a special journal in which entries are made for all invoices of merchandise bought.

When the invoice is received, it is compared with the original order and prices and extensions verified, after which it is recorded in the purchases journal as illustrated in Model 3 on page 256. The effect of this entry is to debit Purchases and credit the person or firm from which the goods were bought. At the close of the month the amount column is footed and the total posted to the debit of Purchases. The postings to the credit of the persons or firms would be made either during the month or at the close of the month.

Before writing up the following exercise study carefully Model 3.

EXERCISE 7 Oct 26, 1927

Record the following invoices, in the purchases journal, and close the book as of the end of the month preparatory to posting. (If the instructor desires, ledger accounts may be opened, the posting done, and a trial balance taken.)

- April 1. Receive an invoice of merchandise from D. C. Eldredge & Co. dated April 1, for \$1963.40. Terms are all on account.
3. Invoice of merchandise from J. W. Kearns, dated April 1, for \$392.75.
 5. Invoice of merchandise from D. C. Eldredge & Co., dated April 3, for \$612.60.
 8. Invoice from William Hart, dated April 8, for \$1,162.75.
 12. Invoice from C. A. Cornell, dated April 10, for \$732.80.
 14. Invoice from J. W. Kearns dated April 14, for \$450.
 18. Invoice from Crocker & Cutter dated April 17, for \$2,470.80.
 20. Invoice from F. B. Carpenter & Co. dated April 20, for \$1,250.
 23. Invoice from William Hart, dated April 20, for \$235.
 24. Invoice from C. A. Cornell dated April 23, for \$750.
 26. Invoice from Crocker & Cutter dated April 25, for \$337.50.
 28. Invoice from J. W. Kearns dated April 28, for \$450.
 29. Invoice from William Hart dated April 29, for \$756.80.
 30. Invoice from Crocker & Cutter dated April 29, for \$1,150 85.

The Sales Journal.

A *sales journal* is a special journal in which entries are made for all sales of merchandise of a trading concern. The purchases journal provides a complete summary of invoices of goods bought, and the sales journal, in like manner, is a separate record of all sales.

Any billing system used by a trading concern would provide for the bill being made out in duplicate, the original going to the customer and the duplicate being filed later, either numerically or alphabetically. The posting to the customer's account is usually made from the duplicate bill, in which case the sales journal is merely a summary of all sales.

The effect of all entries made in the sales journal is to debit the Customer and credit Sales. At the close of the month, the amount column is footed and the total posted to the credit of Sales. The postings to the debit of the customer would be made during, or at the close of, the month.

Before writing up the exercise which follows, Model 4 on page 256 should be carefully studied.

EXERCISE 8

Record the following bills, in the sales journal, and close the book as of the end of the month preparatory to posting. (If the instructor desires, ledger accounts may be opened, the posting done, and a trial balance taken.)

- May 1. Sold a bill of merchandise to H. C. Allum for \$275. All sales are billed on account.
3. Sold merchandise to C. W. Furlong for \$108.50.
 5. Sold merchandise to J. A. Johnson for \$427.60.
 7. Sold merchandise to E. C. Kramer & Co. for \$574.70.
 9. Sold merchandise to George W. Clegg & Co. for \$328.75.
 11. Sold merchandise to C. W. Greenfield for \$912.50.
 13. Sold merchandise to F. T. Donovan for \$76.80.
 15. Sold merchandise to D. C. Daniels for \$396.
 17. Sold merchandise to C. W. Greenfield for cash, \$738.50.
 19. Sold merchandise to C. W. Furlong for \$192.57.
 21. Sold merchandise to E. C. Kramer & Co. for \$214.75.
 23. Sold merchandise to D. C. Daniels for \$631.52.
 25. Sold merchandise to F. T. Donovan for \$278.65.
 27. Sold merchandise to George W. Clegg & Co. for \$124.56.
 29. Sold merchandise to J. O. Johnson for \$218.54.
 31. Sold merchandise to H. C. Allum for \$368.75.

CHAPTER VII

INTEREST AND DISCOUNT

Accounts with Interest and Discount.

Transactions involving interest and discount items may be classified under the following accounts:

Interest on Notes Receivable
Interest on Notes Payable
Interest on Bank Balances
Discounts on Purchases
Discounts on Sales

INTEREST ON NOTES RECEIVABLE

Debit:

Credit:

With all interest received on notes receivable.

At the close of the fiscal period, with the interest accrued to date on interest-bearing notes on hand. (Debit Interest Accrued on Notes Receivable.)

The balance represents total interest earned on notes receivable, and is an income.

INTEREST ON NOTES PAYABLE

Debit:

With all interest paid on notes payable.

At the close of a fiscal period, with the interest accrued to date on notes payable not yet due. (Credit Interest Accrued on Notes Payable.)

Credit:

The balance represents the total interest on notes payable for the fiscal period and is an expense showing the cost to the business of obtaining borrowed capital.

ELEMENTS OF ACCOUNTS

INTEREST ON BANK BALANCES

*Debit:**Credit:*

At the close of each month with the interest on deposits credited to our account as shown by the bank statement.

This account shows the total interest on bank balances and is an item of income.

DISCOUNTS ON PURCHASES

*Debit:**Credit:*

With all cash discounts taken by the business in accordance with the terms offered by creditors.

The balance represents the total cash discounts on purchases and is an income.

DISCOUNTS ON SALES

*Debit:**Credit:*

With all cash discounts taken by customers when paying bills within the term of cash payment allowed by us.

The balance represents the total cash discounts on sales and is an item of expense representing the cost to the business of obtaining prompt payment by customers.

Terms of Payment.

Terms of payment vary greatly in different lines of business and among different business houses.

The more common terms and the manner of indicating them are as follows:

On account (a/c or on a/c) indicates no definite time of payment although the bill would generally be considered to be due on the first of the succeeding month.

On account, 30 days (a/c 30 days): due 30 days from date of bill.

Net or *Net Cash*: no discount allowed, bill being due at once.

Cash 2 per cent.: due at once, but payer is entitled to 2 per cent. discount.

2 per cent. 10 days, net 30 days (2/10, n/30): bill is due net in 30 days, but entitled to 2 per cent. discount if paid within 10 days. 2/10, 1/30, n/60, likewise means the bill is due net in 60 days, but is subject to the discounts as stated.

There is every reason why a merchant should take advantage of cash discounts. By doing so, he makes a substantial saving; he obtains a better credit rating with banks and mercantile agencies; he has advantages in buying at lower prices and from a more carefully selected stock not enjoyed by the merchant not in a position to discount his bills.

Trade Discounts.

A *trade discount* is a deduction allowed by a selling house from list or published prices.

Such discounts are common among wholesale and jobbing houses, particularly those dealing in commodities subject to frequent market fluctuations, such as hardware, glass, paints and other builders supplies, machinery and implements, china, crockery, etc. In such cases, the list price is constant, a change of the trade discount being made to meet market conditions and prices. In order that these discounts may be modified more readily and may reflect more accurately the changes in prices, they are usually stated in a series or "chain;" for example: 25-10-10-5 per cent.; 20-10-5 per cent.; 75-50-25-10 per cent.; 50-10-10-10 per cent.

Such discounts are always deducted by the selling house in billing the customer and hence no record thereof appears on the books of either the buyer or seller. Consequently, no provision for them is made in a study of the accounts with interest and discount.

CHAPTER VIII

PRACTICE EXERCISE—FINANCIAL STATEMENTS

EXERCISE 9

The books of original entry used in this exercise will consist of a journal, cash book, purchases journal and sales journal. These books should be designed on journal paper according to the models studied.

The transactions are to be recorded in the appropriate books and in accordance with the principles and instructions which have been given. All accounts used should be reviewed and special care should be taken in the classification of debits and credits.

June 1, 19—. D. W. Hollister begins business as a wholesale merchant investing \$7,500 cash.

2. Paid cash for insertion of an advertisement in the daily paper, \$100.
2. Paid rent for one month in cash, \$400.
2. Bought office furniture and equipment for cash, \$1,000.
3. Received an invoice of goods from Brown & Co., \$312.50. Terms Net Cash.
4. Bought goods from James F. Connell for \$787.60. Terms on account.
5. Sold a bill of goods to Walter Buckley for \$540. (All sales are on account unless otherwise stated.)
5. Sold goods to Arthur W. Chambers for \$348.75.
6. Paid office wages for the week, \$30; salesmens' wages, \$200.
8. Sold merchandise to Churchill & Co., \$465.86.
8. Paid Brown & Co. for invoice of goods bought on the 3d.
9. Bought goods of Cutler & Bryant, cash 30 days, \$1,396.50.
10. Bought goods of A. B. Chapin & Co., \$550. Terms 15 day note.
11. Gave note at 15 days, bearing interest at 6 per cent. to A. B. Chapin & Co. in payment of invoice of the 10th.
11. Sold merchandise to Ronald V. Tracy for \$1,168.75. Terms 20 day note.
11. Borrowed \$5,000 from Thomas Watson giving note at six months and bearing interest at 6 per cent. as security.
12. Sold merchandise to Walter Buckley for \$467.45.
13. Received note at 20 days, dated June 11 bearing interest at 6 per cent., from Ronald V. Tracy, in payment of bill of the 11th.
13. Paid office wages for week, \$30; salesmen, \$200; the proprietor withdrew \$100 in lieu of his salary allowance. (Debit D. W. Hollister Salary Account.)
15. Sold merchandise to Arthur W. Chambers, \$283.50. Terms Net Cash.
16. Receive check from Walter Buckley for \$250 to apply on bill of the 5th.
16. Bought a building lot costing \$6,000; on which later a store building will be erected; made a payment of \$3,000 in cash and gave a first mortgage for the remainder. (Credit Mortgage Payable.)

17. Paid a bill of \$75 for office supplies.
18. Bought merchandise from Cutler & Bryant, \$960. Terms Cash.
18. Sold merchandise to Harris & Evert for \$325. Terms 1 per cent. Cash.
19. Sent Cutler & Bryant check in payment of invoice of the 18th.
20. Paid office wages, \$30; salesmen, \$200; the proprietor drew a check for \$45 in payment for suit of clothes bought of Scott & Co.
22. Received check from Harris & Evert in payment of bill of the 18th less 1 per cent. (Give them credit in the cash book for the amount of cash received and made an entry in the journal for the discount taken by them.)
22. Bought merchandise from Brown & Co. for \$630. Terms cash less 2 per cent.
23. Churchill & Co. send us a check for \$200 to apply on account of their bill of the 8th and at the same time ask for an allowance on certain goods damaged in shipment. We send them credit memorandum for \$6.80.
24. Send check to Brown & Co. for invoice of the 22d less 2 per cent. (Entry for the discount in the journal.)
25. Sold merchandise to Ronald V. Tracy, \$575.40.
25. Paid note held by A. B. Chapin & Co. Due today with interest.
26. Sold merchandise to Harris & Evert, \$472.50. Terms 1 per cent. cash.
27. Paid office wages, \$30; salesmen, \$200.
29. Received check from Harris & Evert in payment of bill of the 26th less discount.
29. Purchased merchandise of James F. Connell on account, \$1,465.70.
30. Ronald V. Tracy pays his note with interest, bearing date of June 11th.
30. Credit the proprietor with his salary allowance of \$200 per month, charging General Administrative Expense. He draws out in cash the remainder of salary due him.
30. Paid sundry general expense bills amounting to \$92.60.

The books of original entry should now be closed and ruled properly in preparation for posting.

Prepare a list of the accounts which it will be necessary to open in your ledger, classify such accounts under the heads of assets, liabilities, expenses and income, and open them in that order on separate ledger paper, allowing sufficient space for each.

Do all posting, folio each posting at time of making it and take a trial balance on journal paper.

FINANCIAL STATEMENTS

While the monthly trial balance is a summary of all the open accounts in the general ledger and thus is of some value in showing the trend of the business, yet its primary purpose is to prove the equation of accounts contained in the ledger.

In order to summarize and to put into readable form the figures and accounts which show the financial condition of the business, the profits and expenses, and other matter of interest to the owner or officers of a business, certain statements are prepared at the close of each fiscal

period. These statements are prepared from the final trial balance of the period and from inventories of trading goods, of supplies, etc.

The two statements which are always prepared from books kept by double entry are the *Profit and Loss Statement* and the *Balance Sheet*. As the title indicates, the Profit and Loss Statement is a compilation of the items of profit, expenses and losses of a certain period, while the Balance Sheet is a statement of the assets, liabilities and proprietorship.

Preparatory to drawing up these statements, the trial balance should be analyzed and the result shown by the account should be clearly understood. This may be done by placing to the left of the account in the trial balance the initial letter of the word which indicates what the account represents. In making this analysis, it will be of assistance to observe the following principles:

(a) An account showing a profit or income always has a credit balance; an account showing a loss or expense always has a debit balance.

(b) An account with an asset always has a debit balance; an account with a liability always has a credit balance.

(c) An account representing the ownership interest of the proprietor, partners, or stockholders of a business shows a credit balance.

(d) An account with a debit balance, therefore, represents an asset or a loss; an account with a credit balance, a liability, profit or some element of proprietorship.

The Profit and Loss Statement (Model 7) and the Balance Sheet (Model 8) illustrated in the Models on pages 262 and 263 should now be carefully studied. In connection with such study, attention is called to the following important points:

(a) The heading of the Profit and Loss Statement should always show the period covered, while the heading of the Balance Sheet shows only the date on which it was prepared. The reason for this is that the former is a review or summary of what took place during a certain period, while the latter shows the financial condition at the close of the period.

(b) The statements should be prepared with particular care and with attention to punctuation, capitalization, ruling, indentations, etc. The work should always present a finished and professional appearance.

(c) Individual accounts with customers are shown among the assets under the title of Accounts Receivable, while accounts with trade creditors are shown as Accounts Payable.

(d) The model balance sheet shows a simple classification of assets and liabilities.

Current Assets are those assets which are constantly changing in

volume due to trading activities. This class includes such accounts as Cash, Notes Receivable, Accounts Receivable and Inventory.

Fixed Assets are those which are acquired for permanent use in carrying on the business and include such items as Land, Buildings, Furniture and Fixtures, etc.

Expense Items Prepaid, or Deferred Charges to Profit and Loss include expense items which have not yet been consumed or which have a value extending beyond the current period. Such items will eventually be entirely absorbed as expenses, but for the time being are shown as assets of the business. Examples of this class are Office Supplies on Hand; Insurance Prepaid; Rent Prepaid.

Current Liabilities are those liabilities which are constantly maturing and are changing steadily as a result of trading activities; Notes Payable and Accounts Payable are two examples of this class.

Fixed Liabilities are those which will not mature for some years and for the payment of which no immediate provision need be made. Bonds and Mortgages Payable are examples of liabilities of this class.

EXERCISE 9 (Continued)

A Profit and Loss Statement and a Balance Sheet should now be prepared from the trial balance which has been drawn off. The inventory of unsold merchandise amounts to \$3,417.25. Jan 11, 19

In preparing these statements, the model exercises should be closely followed as to titles, form, arrangement, punctuation, use of capitals, classification of accounts, etc. The instructor will point out any variation from the models which are to be observed in setting up the statements.

Closing the Ledger.

Following the preparation of the Profit and Loss Statement and the Balance Sheet, the final work performed by the bookkeeper at the close of the fiscal period is the closing of the ledger.

This is the process by which all the accounts which show a profit and a loss are closed into a Profit and Loss account in the general ledger. During the period under review, these accounts have served their purpose as a means of classifying all items of profit and loss, and at the end of the period they are closed and ruled in order that their use may be continued during the succeeding period.

When the accounts showing a profit or a loss are transferred to the Profit and Loss account, the account will then show the net profit or loss

which is in turn transferred to the proprietor's or partners' account, or to the Surplus account in the case of a Corporation.

After this is done, the only open accounts remaining on the ledger are the balance sheet accounts with assets, liabilities and proprietorship.

The ledger is closed by means of journal entries which show the corresponding debit and credit necessary to transfer the balance of a profit or loss account to Profit and Loss, and to transfer the net profit to the proprietorship account or accounts.

The closing entries illustrated in Model 9, page 264, should be studied and examined carefully.

EXERCISE 9 (Concluded)

Make closing entries in the journal, following the model set of entries as closely as need be.

After making such entries they should be posted exactly as other journal entries are posted.

The general ledger accounts will then be ruled and balanced in accordance with instructions which will be given.

A proof trial balance is then taken from the ledger. The purpose of this is to assure the bookkeeper that the ledger has been correctly closed and that the open accounts are in balance. Such a trial balance is sometimes called a *post closing trial balance*.

The entire work on Exercise 9 should now be passed in for examination and correction.

CHAPTER IX

BUSINESS FORMS AND PAPERS

The study of accounting theory and practice implies familiarity with the papers and documents commonly used in business. While it may be assumed that many students of elementary accounting are already familiar with the form, wording and use of such common papers as the invoice, bill, promissory note, or bank check, yet a brief discussion of these and other business papers may not be out of place.

Invoice (Form 1).—An invoice, as the term is commonly used, is an itemized statement of goods bought, showing date of purchase, from whom purchased, terms of purchase, quantities and items, prices, extensions and total.

Bill.—A bill is an itemized statement of goods sold, of services rendered or of expenses incurred.

This distinction between the terms invoice and bill is, however, not always observed, the two words often being used in exactly the same sense.

Statement (Form 2).—A customer's statement is an abstract of the debits and credits of a customer's account, for a certain period, showing the balance due from him on the date that the statement is rendered. Such statements are usually sent out on or about the first of each month; they serve to remind the customer of the amounts owing by him; and, in addition, they enable him to compare the statement with bills formerly received and with his own books to see that they are in agreement.

Negotiable Paper.—Negotiable paper is any instrument of credit which may readily be transferred from one holder to another by endorsement and delivery. The three common forms of negotiable paper are the promissory note, draft or bill of exchange, and bank check.

Promissory Note (Form 3).—A promissory note is a promise in writing to pay a stated sum of money to a person named in the body of the instrument, at a definite time.

BOSTON, MASS. <u>April 14</u> 191 <u>9</u>									
<u>M^r. Edw. H. Fallon</u>									
To BISHOP, DRISCOLL CO. DR.									
WHOLESALE GROCERS									
TERMS <u>2/10 n/40</u> 84 STATE STREET									
✓	20	bbls	N. Star Flour	9.	180				
✓	20	"	Pastry	8. ⁵⁰	170				
✓	30	doz.	C. Tomatoes	2.	60				
✓	24	"	C. Corn	1. ⁷⁵	44 40	454	40	✓	
OK APB									

FORM 1.—INVOICE.

STATEMENT

FOLIO 24BOSTON, MASS. June 1, 1919.Mrs. C. J. Knowles242 Union St.To A. D. Hall & Son DR.24 Canal St.TERMS 60 day

May	1	Acct. rendered	342	70		
	11	Adse	146			
	21	"	267	50	756	20
		Cr.				
May	16	Cash			400	
					356	20

FORM 2.—CUSTOMER'S STATEMENT.

Draft or Bill of Exchange.—A bill of exchange is an order drawn by one person or firm on another directing the payment of a stated sum of money to the person or firm named in the body of the instrument.

A draft or bill of exchange has three parties connected with it: The drawer, or the one who draws it, the drawee, the one on whom it is drawn, and the payee, to whom it is made payable.

As regards time of payment, a draft may be drawn *at sight*, in which case it is payable upon presentation to the drawee; or it may be drawn payable a certain number of days "*after sight*" or "*after date*," in which case it is spoken of as a "*time draft*."

The drawee of a time draft honors it, if he desires to do so, by accepting it, which consists of writing across the face the word "Accepted," followed by the date of acceptance and his signature. The place at which it is payable is also often stated. An acceptance is equivalent to a promise to pay the draft at maturity.

As one form of negotiable paper, drafts have the following commercial uses:

(a) *The sight draft for collection* is a means of collecting overdue accounts or accounts which may be doubtful of collection. In accordance with the usual procedure, the creditor draws a draft upon the debtor for the amount of the debt, making it payable at his (the creditor's) bank where it is left for collection. The bank sends notice to the debtor by messenger, if he resides in the same city, informing him that such a draft has been drawn upon him and asking him to call at the bank at once and pay it. If the draft is paid, the amount, less perhaps a small collection fee, is placed to the credit of the drawer. If the draft is not paid, notice of dishonor is sent to the drawer and the draft is returned. If the drawee resides in another city, the draft is forwarded by the drawer's bank to some bank in that city which bank attends to the collection.

This method of collection is effective because it is a dignified, honorable way to urge payment. If a business man dishonors a draft drawn upon him, without good reason, the effect upon his credit is bad, and knowing this, he will, if possible honor a draft drawn upon him for a just debt. (See Form 4.)

(b) *A draft with bill of lading* attached is a means of obtaining payment from a customer prior to the delivery into his hands of the merchandise shipped to him. This method of shipping goods is common among dealers in certain commodities, such as grain, flour, cotton, wool, etc., and it is also often employed when shipment is made of the first order received from a customer where there has been no time to look up his

\$100⁰⁰ Northampton, Mass, April 4, 1915
 Sixty days after date I promise to pay
 to the order of Mrs Frances Masters
 One Hundred and no/100 Dollars
 Payable at
 Value received with interest at 6% Helmut Hunt
 No. 1 Due May 31, 1915
 Form 202 Thompson & Morris Co. Boston

FORM 3.—PROMISSORY NOTE.

Boston, Mass, June 20, 1915. No. 2
 At sight
 ORDER OF First National Bank \$250⁰⁰
 Two Hundred Fifty no/100 SCHOOL CURRENCY DOLLARS.
 VALUE RECEIVED AND CHARGE THE ACCOUNT OF
 To Thomas A. Murray } Chas E Norris
 296 Hudson St, Boston. }

FORM 4.—SIGHT DRAFT.

credit rating, or in case a customer's credit has been found by experience to be poor.

When such a shipment is made, a draft is drawn upon the customer, either at sight or time, made payable at the bank of the selling house; the draft is attached to the original bill of lading and is left at the bank with instructions that it be forwarded for collection. The bill for the goods goes forward by mail with a notice, either by letter or expressed in the terms stated on the bill, that shipment is being made in this manner.

Upon receiving notice from a bank in his own city of the arrival of the draft, the customer pays or accepts it and receives the bill of lading which, upon receipt of a notice from the railroad of the arrival of the goods, he presents to the railroad as evidence of title to the goods.

(c) *A trade acceptance* is a use of the draft which has been growing in popularity in recent years, largely through the strong endorsement of its use by the Federal Reserve Board and by many prominent banking houses. It is defined by the Board as "a bill of exchange drawn by the seller upon the purchaser of goods and accepted by such purchaser."

The purposes served by the trade acceptance are that open book accounts are converted into a liquid asset; the correctness of the account is acknowledged by the debtor; it reduces the expense of collecting and of loss from uncollectible accounts; it prevents the taking of a cash discount after the discount period has expired; it fixes dates of maturity; it helps the creditor to complete his contract, and thus improves his financial standing; it relieves the seller of the possible necessity of selling his accounts receivable at a high rate of discount; in short, the trade acceptance does away with most of the evils arising from the sale of goods on open account.

Inasmuch as the acceptance is drawn against an actual sale of goods, it is regarded by the bank as a more attractive form of commercial paper than a loan to be used in financing future transactions, and this combined with the fact that it is a two-name paper, results in such paper being taken by the banks at a lower discount rate.

Such drafts do not differ in form from those already discussed. The seller of the goods is the drawer; the purchaser, the drawee; the seller may name himself as the payee or he may draw the draft to the order of his bank. It would be drawn on date of sale and for the term of credit allowed by the seller.

The draft is sent to the drawee for acceptance after which it may be discounted by the drawer, the sale thus being converted into ready cash.

(d) *A bank draft* is a draft drawn by one bank upon another bank and made payable to a private individual or firm.

Such a draft may be procured from any banking house, one's personal

check being exchanged for the draft which is simply the check drawn by the bank itself upon an account kept with a correspondent bank in another city. If one does not have a checking account, the draft may be purchased for cash. The drafts in more common demand are those drawn upon banking houses in the larger banking centers, particularly New York, Chicago, and Boston.

The bank draft is used as one method of transmitting money in cases where it is not advisable to send one's personal check; it is also a convenient form in which to carry funds in excess of one's current needs.

Power of Attorney.—A power of attorney is a legal document which confers upon the person named therein the authority to perform certain duties in the name of the one who confers the power. Instead of special powers being designated, the document may confer general powers to act for the individual.

Lease.—A lease is a contract between landlord and tenant, by the terms of which the tenant is given the right to the use of certain property for a stated period at a specified rent.

Articles of Copartnership.—A contract or agreement entered into by two or more individuals who are forming a partnership for the purpose of carrying on a certain business or profession. Such an agreement specifies the date of agreement, nature of the business, place of business, firm name, investment of each, salary allowances, description of duties, and all matters about which it is essential to have a definite understanding.

CHAPTER X

BANKING PRACTICE

A bank is an institution which deals in money and in credit.

Banks are generally divided into two classes, viz.: savings banks and commercial banks.

Savings banks are usually non-stock institutions chartered by the state for the encouragement of savings among persons of moderate means, interest being compounded semi-annually upon all money deposited. Such deposits, unlike deposits in a commercial bank, are not subject to check, although they may be withdrawn in whole or in part upon presentation of a written order.

There are several different types of commercial banks including national banks, trust companies, state banks and private banks. While these differ in certain essential respects as regards organization, management, and the extent and character of the business conducted, yet for our present purpose, they have several functions in common, in that they accept deposits subject to check, discount commercial paper presented to them, and lend money on approved security.

There are numerous advantages to the business man and to the private individual in maintaining a "checking" account in some commercial bank of the type mentioned. Among these advantages are:

1. A "checking" account tends to a more systematic method of recording income and expense.
2. A greater degree of safety is insured.
3. A canceled check is usually regarded as sufficient evidence of the payment of a bill. In other words, it serves as a receipt.
4. The payment of a bill by a neatly drawn check on a good bank adds to the prestige of the drawer.
5. One's bank may often be used for credit and for reference.

Check (Form 5).—A check is an order drawn by a depositor upon money on deposit in a commercial bank, and used in the payment of money to a designated payee.

Check Book.—A check book is a book of blank checks furnished by a bank to its customers. The "stock" form of check book commonly

used consists of a stub attached to each blank check; at time of drawing the check this stub is filled out, thus giving the drawer a permanent record of date of issue, amount, name of payee and for what issued.

<i>Boston, Mass.</i>	<i>April 5, 1915</i>	<i>\$ 41⁰⁰</i>
<i>The National Shawmut Bank</i> (S-20)		
<i>Pay to the order of Barrett & O'Brien</i>		
<i>Forty-one</i>	<i>66¹⁰⁰</i>	<i>Dollars</i>
<i>No. 970</i>	<i>Rose Tree Inn</i>	<i>by J. E. K.</i>

FORM 5.—CHECK.

Deposit Slip (Form 6).—A deposit slip is a blank form furnished by a bank to its customers on which are listed bills, coin, checks, etc., which are being deposited in a “checking” account.

Pass Book.—The pass book, or bank book is a book in which the receiving teller at the bank enters the total amount of each deposit made; this book is furnished by the bank and usually retained by the depositor.

NATIONAL SHAWMUT BANK	
BOSTON, MASS.	
DEPOSITED BY	
<u>Hinds, Perry & Co</u>	
BOSTON, <u>Dec. 12, 1914</u>	
CHECKS AND CASH ITEMS ARE CREDITED ONLY SUBJECT TO PAYMENT. THIS BANK IN COLLECTING PAPER RECEIVED FROM ITS CUSTOMERS, WHETHER THE SAME BE PLACED TO THEIR CREDIT OR NOT, ACTS ONLY AS THEIR AGENT AND ASSUMES NO RESPONSIBILITY EXCEPT TO EXERCISE THE SAME DILIGENCE IT USES IN COLLECTING ITS OWN PAPER.	
	DOLLARS CENTS
BILLS (IN A STRAP) _____	192 -
SPECIE _____	37 62
CHECK ON _____	
<u>53-169</u> BANK	21 40
<u>5-20</u> "	197 50
<u>56-172</u> "	4 90
<u>52-97</u> "	72 -
<u>10, m/o. Mehter, M.H.</u>	3 75
	529 17
_____ "	
_____ "	
_____ "	
_____ "	
_____ "	
_____ "	

FORM 6.—DEPOSIT SLIP.

Formerly, it was the practice of a bank to balance the pass book at certain intervals or whenever requested to do so by the depositor; this was done by listing the paid checks, or entering the total thereof, on the

credit side of the book, and showing as a balance the amount remaining to the credit of the depositor. It is the general custom now for banks to render monthly statements to all customers, and when this is done, the pass book becomes nothing more than a memorandum of deposits.

Bank Statement.—A bank statement is a statement rendered by a bank periodically, usually on the first of each month, showing the deposits made during the month, the checks paid, and the balance to the credit of the customer's account at the close of the month. Collection charged, interest credited, protest fees, and other transactions affecting the account are also shown on the statement. The canceled checks are enclosed with the statement when preparing it for delivery or for mailing to the customer.

Reconciliation of Bank Statement.—When the statement is received, the balance as shown thereon should be immediately compared with the check book balance of the corresponding date. If the account is at all active, the two balances will rarely agree, since there are probably checks which have been drawn, which have not been cashed or deposited by the payee. In order to determine what checks have not been returned, the paid checks should be arranged in numerical order and a list made of the missing numbers. The total of all outstanding checks deducted from the balance as shown by the bank statement should equal the balance shown by the check book; due allowance must be made for interest credited to the depositor's account and charges against the account not yet brought on the books of the depositor.

The following is a form of such statement:

RECONCILIATION OF BANK STATEMENT

JULY 1, 1918

Balance per bank statement.....	\$976.40
Deduct: Checks Outstanding:	
No. 1,387.....	\$42.00
No. 1,389.....	12.60
No. 1,395.....	3.76
No. 1,397.....	118.20
No. 1,398.....	94.60
	<hr/> 271.16
Balance per check book.....	\$705.24

The Numerical System of the American Bankers Association.—The American Bankers Association recently adopted a numerical system which consisted of the assignment of a number to all banks and trust companies

of the United States. The reserve cities are given prefix numbers from 1 to 49, inclusive, in the order of their population. Each bank in each reserve city is also given an individual number which on the checks is separated from the prefix number by a hyphen. The number appears on all checks on a line with the name of the bank. 1-264 indicates a New York City bank; 5-20, a Boston bank; 6-127, a Cleveland bank. The prefix numbers from 50 to 99, inclusive, are assigned to the States, the prefix number indicating the State, the subnumber, the individual bank. 53-19 indicates a Massachusetts bank outside of Boston; 56-287, an Ohio bank outside of Columbus, Cleveland or Cincinnati.

In making out a deposit ticket it has always been the custom to list checks by writing in the space to the left of the money column the name of the bank upon which the check is drawn, if on a bank in the same city, and the name of the city if drawn on a bank in another city. Some depositors, however, write in the space to the left only the number of the bank, which appears on the check to the right of the name of the bank.

The accompanying form illustrates a deposit slip made out in this way.

Filing Canceled Checks.—There are four ways of filing canceled checks: (1) Filing the envelope with checks and other memoranda enclosed just as it came from the bank; (2) filing the checks in numerical order, the envelope and other papers being destroyed; (3) pasting the canceled checks on the stubs from which they were torn; (4) attaching the canceled check to the bill or invoice in payment of which the check was issued. The first way is probably the most satisfactory.

Certified Check.—A certified check is one which bears the guarantee or certification of the bank on which it is drawn that the check is genuine, and that funds have been set aside with which to meet it when it is presented for payment. A check is certified by its being presented to the bank by the maker before delivery, or by the payee, after delivery, and having a rubber stamp impression placed across the face, bearing the word, "Certified," the date, and the signature of a bank official. The amount of such check is immediately charged against the maker's account and placed in a special account awaiting the presentation of the check for payment.

Cashier's Check.—A cashier's check is a check drawn by the cashier of a bank upon the bank's own funds. Such a check may be used in paying the current bills of the bank, and it is often used in the place of a bank draft or a certified check.

QUESTIONS ON BANKING PRACTICE

1. State the essential characteristics of a national bank; trust company; savings bank; private bank.
2. What are the advantages to an individual of having a "checking" account in some bank?
3. What are some points for one to bear in mind in the selection of a bank in which to open a "checking" account?
4. Do banks ordinarily pay interest on a "checking" account?
5. How would you proceed to open a bank account?
6. Define deposit slip; bank book; check book.
7. Define endorsement; name and illustrate the two common forms of endorsement. Where should the endorsement appear?
8. What is a bank "overdraft"? Will a bank make partial-payment of a check if the depositor's credit is not sufficient to pay the full amount?
9. What is the effect of the death or bankruptcy of the drawer of a check?
10. Under what circumstances would you advise the use of a check protector? Name a manufacturer of such an appliance and state its cost.
11. Is it necessary to preserve a copy of each deposit made? What two ways would you suggest of preserving such a copy?
12. Who loses in case of a forged check; a "raised" check?
13. How should checks be signed?
14. What should be the practice regarding erasures on checks?
15. What would you do in case you spoiled a check which you were writing?
16. In filling out the stub of check No. 712, you made an error of \$10 in subtracting, obtaining a balance of \$10 too much; the error was not discovered until you were proving your cash at the end of the day; you had written twenty checks in the meantime; how would you correct the error?
17. How would you write a check for 85 cents? Under what circumstances would you issue a check for less than one dollar?
18. Is an endorsement made with a rubber stamp sufficient?
20. You receive a check in which your name has been mis-spelled and the wrong middle initial used; how would you endorse it?
21. How would you endorse checks which you mail to your bank for deposit in your account?
22. In case the amount in words and in figures differ, which would govern?
23. Will a bank cash a check which bears no date? Will a bank cash a post-dated check?
24. Are checks drawn with a lead pencil valid?
25. Are checks required to be written on blank checks furnished by the bank?
26. What are the general principles which govern banks in charging for collecting checks? What is the usual charge?
27. What would you do in case you lost a check before you had an opportunity to cash or deposit it?
28. What would you say about promptness in depositing or cashing checks? What is the danger in delaying?
29. In case you wish to draw out money for your own use, how would you write the check?
30. A commission house handled the products of consignors living in country districts to whom checks were sent monthly for the proceeds due them; a large number

of the consignors were slow in depositing checks sent them, often holding them out for from six months to a year. To insure promptness, the commission house stamped all checks sent to their consignors, "This check is void if not deposited within 30 days." What was the legal effect of such notice?

31. Define certified check; certificate of deposit; bank draft.

32. Under what circumstances would you send money by bank draft? Explain in detail how you would procure a bank draft.

33. In what form do most banks now render statements to depositors? How often are such statements rendered?

34. What should the depositor do immediately upon receipt of the bank statement?

35. What do you understand by reconciling the bank statement with the check book?

36. Give form of bank reconciliation statement representing eight checks as outstanding, supplying your own figures.

37. Under what circumstances is it advisable to keep a permanent copy of the reconciliation? In what manner would you do so?

38. Name several different methods of filing canceled checks. In your opinion, what is the best method?

39. Does a canceled check answer all requirements of a receipt?

40. What is a voucher check?

41. Explain the purpose and effect of each of these phrases in the body of a check: "Pay to _____ or order." "Pay to _____ or bearer." "Pay to the order of _____."

42. As treasurer of the Century Club, you collect all money and sign all checks; what form of signature would you use?

43. Is a check dated on Sunday valid?

PART II

**ACCOUNTS OF PRIVATE INDIVIDUALS,
PROFESSIONAL MEN AND INSTITUTIONS**

CHAPTER XI

HOUSEHOLD ACCOUNTS

The problem of how best to meet the steadily climbing cost of living is becoming more and more acute in the average household, and is claiming the serious attention of many students of home economics. Along with the economic questions involved, an increasing amount of attention is being given to a more business-like administration of the finances of the home and to the keeping of household and personal accounts.

Unfortunately, the management of the home has never been regarded as a business. The energies of the wage earner of the family are largely exhausted in earning the income, while the education and experience of the average woman are not such as would fit her for the responsible task of using that income to the best advantage. We are inclined to overlook entirely the fact that in many cases the wise expenditure of one's income involves as high a degree of ability as does the earning of that income. This being true, it follows that every woman needs a practical training in business affairs, particularly when we have it on good authority that at least 70 per cent of all money spent in this country is spent by women.

It being taken for granted that the proper management of the home is a business in itself, it follows that the same principles which apply to the administration of a successful business, should apply with equal force to the administration of the home. Success in business is the result of judgment, foresight, executive ability, conservatism, and sound methods of finance.

These qualities are equally essential, although perhaps in a less degree, in managing the affairs of the home. As the accounting records which every business house finds it necessary to keep reflect all of the financial matters relating to the growth of the business, so in the home a simple and practical method of keeping an account of the family income and expense, reduces the problems of home finance to a concrete, tangible form.

We are obliged to a great extent to judge of future needs from past experience. The best way by which to study how the income of the current year may be expended to the best advantage, is by studying critically the use which has been made of such income in the past. One, therefore, does not reap the full measure of benefit from keeping accounts

during the first year that such accounts are kept because as yet no comparisons are possible. After beginning upon the second year, however, the expenses of different classes may be compared month by month and increases and decreases investigated and helpful conclusions drawn therefrom.

Perhaps more important than anything else to the average family is the fact that the keeping of personal and household accounts greatly stimulates thrift and economy, constantly exposes extravagances and unwise expenditures, and creates the habit of laying aside in regular amounts something from each month's income, no matter how small it may be.

The keeping of accounts is regarded by many people as an annoyance and as a needless waste of time and energy, the results from which in no way justify the work involved. This impression is due largely to ignorance of the actual effort required and time consumed. As a matter of fact, after such practice becomes a regular habit, it should require a very few minutes each day with an hour or two of additional work at the close of each month in summarizing the expenditures and in closing the account for the month.

The most troublesome thing for the beginner to contend with is a tendency to neglect the work and to postpone it to what would seem to be a more favorable time, trusting to an indifferent memory to recall the items of expenditure of several days or perhaps a week. This should be avoided, and the recording of the expenditures of each day made a fixed and regular habit, as in the end the results will be more satisfactory, less time will be required, and there will be fewer forgotten items.

Finally, in order to keep household accounts successfully and in such a way that they may be of real service, the husband and wife must be in hearty sympathy with the plan and must co-operate in every way to carry out the idea conscientiously.

To summarize, the following reasons may be given for the keeping of private and household accounts:

- (a) A complete record of income and expense, properly classified, is provided.
- (b) Comparisons of income and expense of the corresponding months and successive years may easily be made.
- (c) Extravagances are exposed and thrift encouraged.
- (d) A basis is provided upon which to plan for insurance and regular savings and on which to forecast expenses for a year in advance.
- (e) A ready answer is supplied to the threadbare question: "Where does our money go to?"
- (f) Greater harmony, and more co-operation among the members of the family result.

- (g) Each dollar of income may be made to render maximum service.
- (h) The work of meeting the requirements of the income tax law of the Federal government and of many states, is simplified; accurate returns compiled with the minimum of work are possible only when proper accounts are kept.

Household Accounting Systems.

Many methods of keeping household accounts have been evolved by individuals interested in the subject, each having no doubt certain advantages, and each reflecting the fancy and ingenuity of the originator.

In the last analysis, no one will dispute the fact that the system must be as simple as it can be made; at the same time, it must be thoroughly practical and business-like and must reflect sound principles of account keeping. The essential thing is that it be a real system carefully thought out in order that the clerical and routine work involved may be performed according to a definite plan and in a way that will bring matters to a definite focus at the close of each month.

The amount of the family income has some bearing upon the method adopted. The wage earner whose income is received weekly and in a fixed amount, with a total annual income of from \$1,000 to \$2,000, needs a somewhat different system from the family with an income of from \$2,000 to \$10,000 and above.

Whatever the system, it should give a monthly summary of income and expense properly classified with a final summary or recapitulation by months at the close of the calendar year.

Of equal importance with the system of keeping the accounts, is a classification of income and expense which will furnish the desired information concerning the family finances in a properly analyzed form. This is again dependent to a great extent upon the amount of the income, the size of the family, the complexity of living conditions, whether the home is owned or rented, the information which may be desired, and upon many other things. Any classification which might be recommended, would be general in its application, and would be subject to many variations to suit individual requirements.

Classification of Income.—In the case of the family of moderate income, derived mainly or entirely from the salary or wages received by the head of the family, no classification is necessary; neither is any separate record of such income necessary, for the reason that it is definitely fixed, received in regular amounts, and at regular times.

If, in addition to wages or salary, income is derived from investments in stocks, bonds, real estate, savings bank deposits, special fees, commissions, etc., such a classification should be adopted as would give a

complete analysis of income from each source; in order to meet the requirements of the income tax laws, it would be advisable to extend this classification so that income from stocks or bonds which is taxable would be shown separately from that which is non-taxable.

In any event, the income of the average person is subject to a limited classification and any necessary division of such income would naturally suggest itself to the person receiving it.

Classification of Expenses.—The problem of working out a comprehensive and practical classification of expenses is a much more serious one, for the reason that one is particularly concerned about expenses and because they are so much more varied and extensive.

Many attempts have been made to standardize such expenses and this is possible in a general way, but beyond a certain point the division is affected largely by circumstances and conditions. A rather common general division of the family expenses is under the five heads of Shelter, Food, Clothing, Operating Expenses, and Higher Life, each general head being subdivided as extensively as may be desired.

Shelter would include rent, or expenses of maintaining one's own home, such as taxes, insurance, repairs, interest on mortgage, and incidental expense. Operating Expenses would include fuel, light, house service, telephone, health, stationery and postage. Higher Life would include books, newspapers, periodicals, church, benevolences, dues, theater, concerts, lectures, traveling, savings and insurance. Any or all of these general classes could easily be modified or extended to suit individual needs.

A limited combination of items in one class is often necessary in order to reduce the number of classes and thus simplify the accounting record.

Not only should the classification be definitely decided upon, but the function of each class should be carefully defined in order that there may be no variation in practice from time to time in the summarizing of expenses.

As a guide to the general classification of expenses and to the use of each class, the following is suggested:

Rent.—If home is owned, an account would be substituted for this with Maintenance of Residence, to include taxes, insurance, repairs, etc.

Food.—Groceries, meats, vegetables, milk, ice, provisions, fruit. Under most circumstances this should not include husband's lunches, or occasional meals at hotels or restaurants.

Clothing.—A separate classification should be provided for each member of the family. If, however, this would make the main record of

expenses too extensive, a single classification could be provided for clothing for the entire family and a subsidiary record kept which would contain cost of clothing for each.

This account would show only cost of new clothing or cost of making over clothes and would not include repairing, cleaning, pressing, etc.

Heat, Light and Telephone.—A single class for these three items is advisable because they are fixed operating expenses, somewhat similar in character. Heat would include coal, wood, coke and kindling; light would include gas, electricity, kerosene and candles.

House Service.—Wages of maid, laundress, furnace man and expenses of shoveling snow and tending lawn. This class may well take care also of laundry done outside, cleaning, pressing and repairing of clothing, all of which is a payment for service.

Health.—Service of doctor, dentist, surgeon, oculist, medicine, medical supplies, nurse, hospital bills, etc.

Taxes and Insurance (Personal).—Income and poll taxes, life, health, accident and burglary insurance, and insurance on household furniture. Endowment insurance may be included here or more appropriately under Savings.

Gifts.—Christmas, birthday, wedding, anniversary, and personal, not only to one another, but to relatives and friends.

Books, Newspapers and Periodicals.—This class would be necessary only in case of a family of literary tastes, buying books constantly and subscribing to numerous periodicals; in ordinary cases, these would be included under Sundries.

Church, Charity and Dues.—Amounts given toward support of church, benevolences of all kinds, and membership dues in societies, clubs, etc. A separate classification might be advisable for Membership Dues.

Recreation and Amusements.—Theaters, moving pictures, concerts, lectures, ball games, dinners, trips of one day to the seashore, picnics, etc.

Traveling Expenses.—Vacation expense, and expenses of trips of more than one day; this should include railroad fare, taxicab, express on baggage, hotel bill, tips, etc.; clothing, home furnishings, etc., bought while traveling should be classified under their proper heads.

Furniture and Furnishings.—Furniture, rugs, pictures, statuary, tapestries, china, linen, glassware, household ornaments, kitchen utensils and equipment.

Lunches and Car Fare.—If husband has daily carfare and gets his lunches in town a separate classification is desirable; this may also take care of wife's occasional expenses of the same class.

Sundries.—This classification is necessary to take care of the numerous

small items which do not admit of convenient classification. Among these may be mentioned, stamps and stationery, toilet goods, shines, candy, barber, flowers, cigars, tobacco, books, newspapers, periodicals, etc. Of course, a separate classification may be adopted for any one of these items which one might wish to keep separate. Separate Sundries classification is desirable for husband and wife.

Savings.—Savings bank deposits, co-operative bank dues, cost of stocks or bonds bought, endowment insurance, or savings made in any other manner. Other forms of life insurance by which certain benefits may accrue to the policy holder during his life, may rightly be classified under this head.

Apportionment of Income.—The basis of success in managing the home and in rendering a true accounting thereof, is co-operation and sympathetic interest between the members of the family partnership. To this end, there should be a definite and convenient division of labor as regards the buying, paying the bills, keeping the accounts, etc.

Doubtless this co-operation is much stimulated and aroused by making an apportionment of the monthly or weekly income, and agreeing upon what expenses shall be met out of each portion. This fixes a definite responsibility upon both husband and wife, and creates a desire on the part of each to make as good a showing as possible each month. For example, a salary of \$200 per month may be divided into equal portions, it being agreed that the wife shall buy all the food, pay the gas and electric light bills, and house service, clothe herself, and meet her own personal expenses; the husband pays the rent, the coal bill, clothes himself, pays his car fare and lunches, insurance, taxes, etc. Amusements and recreations, traveling expenses, church and benevolences, and other items of a similar character might well be shared by both.

In order that the wife may more fully appreciate her responsibility, may be more interested in the work, and may by experience become better acquainted with banking practice and business customs, she should be given a separate checking account, her portion of the income being paid over to her to be deposited each month.

All bills which it is possible or convenient to pay by check should be paid in this way, and the bank statement received each month should be reconciled with the check book balance. Some satisfactory method should also be adopted of filing the canceled checks.

In carrying out this idea of personal responsibility and in order to teach the value of money, if there are children in the family of high school age or even younger, they should be given a weekly allowance and should be expected to account for it.

A brief explanation will now be made of certain methods of accounting for expenses which are commonly recommended:

Envelope System.—This system comprises a series of manila envelopes of legal size, the envelopes labeled to correspond with the classes of expenses which it is desired to keep separate. Each week's or month's income is apportioned among the different classes, each portion being placed in its proper envelope. As money is expended it is recorded under its proper date and with appropriate explanation on a slip of paper kept in the envelope, the account being balanced at stated intervals.

This system, while recommended by certain writers on home economy, is somewhat crude, and unbusinesslike, and its use is not advised, except perhaps in cases of very small incomes received in weekly installments. The method invites carelessness and confusion, the record of expenses is incomplete and not in a permanent form, and it has the further disadvantage of making it necessary to keep more money about the house than is safe under ordinary circumstances.

Card Ledger System.—By this system the classified list of expenses is recorded on cards either 3×5 or 5×8 , and kept in a tray or drawer of the same size. The cards are alphabetically indexed so that any one is easy of location; the expenditures are recorded daily on the proper cards, and a yearly summary is made of monthly expenditures on other cards kept with each class.

An objection to the method is that the used records are likely to be destroyed or mislaid unless a regular drawer file is procured and pains taken to file each month's cards regularly and systematically. It has the advantage, however, of being a flexible method which admits of a much more detailed classification than is possible if a bound book is used.

Expense Account Books System (Form 7).—Probably the most extensive development of household accounting systems has been in the form of Expense account books consisting of parallel money column headed with each class of expense which it is desired to keep distinct. These books may be procured at any good stationers in a variety of size, bindings and costs; such books are usually designed to last a year, but they may be procured to last three or more years. They may be obtained with a "ready made" classification, the columns having printed headings to correspond to the publisher's classification, but a better plan is to procure a book containing the necessary number of columns with blank headings, writing or printing in the headings to agree with one's own classification; a book should be selected of such a size that two or three extra columns will be left for future expansion.

An expense book of this character usually provides a double page for each month, the classification running across the double page, with horizontal lines for each day of the month.

Used as it should be, this is not a book of "original entry" but a book in which items of expenditure are summarized at the close of each month. As a record of day by day expenditures, it is therefore necessary for both husband and wife to have a small "memo" book carried either in the pocket or kept in one's desk. This book should contain a record of all currency disbursements with a word or two in explanation of the nature of each. Payments by check do not need to be recorded in this memo book, because a transcript of such payments may be made at the close of the month from the stub of the check book.

At the close of the month after all expenditures for the month have been transferred or "posted" from the stubs of the check books and from the "memo" book, the several columns are footed, the footings showing the total of each class of expense for the month. The book usually contains a "Total" column on the right-hand margin for daily totals which allows the book to be added both vertically and across and the additions proved. In cases where one's accuracy may be relied upon, the rather tedious work of the cross addition may safely be omitted.

Space is always provided in the back part of Household Expense Books of this type for a recapitulation of monthly expenditures showing in a summarized form the total expenses by classes and by months for the year.

Regardless of the system of accounting adopted for household expenses, it is assumed that all bills are paid promptly; when charge accounts are kept at different retail stores, bills or statements will not usually be received until from the first to the fifth of the succeeding month. The expense book should not be closed for the month until all current bills for fixed operating expenses have been received in order that they may be entered in the month in which they were incurred, rather than in the month in which the checks are issued in payment.

Under most circumstances, in keeping personal or household accounts, it is not worth while to attempt to make a daily proof of cash. The balance of cash on hand and in bank at the beginning of the month is known; if to this one adds the receipts for the entire month, deducting from the total thus obtained the expenditures for the month, one should obtain a balance which very closely agrees with the balance in bank plus the cash on hand.

However accurate one may be, it is entirely probable that a shortage will be found due to minor expenses, such as newspapers, postage, re-

freshments, etc., which shortage should be entered under Sundries. A discrepancy of any consequence should of course be investigated.

The Expense Book illustrated in Form 7 is taken from Woolson's Economy Expense Book.

Journal Summary System.—By this method, the expenses of the month are summarized in a small journal of standard ruling, the data being compiled from the check book stubs and from the memos kept of daily expenses. Accounts with each class of expense are also kept in a small ledger and the monthly totals of each class, as shown by the summary, transferred to their proper ledger accounts. A yearly summary is prepared from these ledger accounts at the close of each calendar year.

This method has the advantage of giving a more compact summary of monthly expenditures and in perhaps a more readable form, and further, the work of footing and cross footing the numerous money columns with which the regulation expense book is provided, is avoided.

Following is an illustration of a monthly summary prepared in accordance with such a plan:

STATEMENT OF INCOME AND EXPENSE
JANUARY, 1918

Income:

Salary.....	\$200.00	
Investments—Bonds.....	30.00	
Investments—Stock.....	20.00	\$250.00

Expenses (Husband):

Rent (Check No. 95).....	\$50.00	
Clothing (Check No. 96).....	12.50	
Insurance (Check No. 97).....	34.60	
Coal (Check No. 98).....	18.75	
Personal Expenses (Itemized as per memo book) (Checks Nos. 98, 99, 100).....	35.00	
Savings Bank (Check No. 101).....	10.00	\$150.85

Expenses (Wife):

Food (Checks Nos. 18, 19, 25, 29, 30, 32. May be itemized if desired).....	\$40.00	
Gas (Check No. 20).....	2.50	
Electricity (Check No. 22).....	2.00	
Laundry (Check No. 23).....	4.00	
Clothing (Checks Nos. 24, 27).....	15.25	
Furnishings (Check No. 28).....	4.50	
Personal Expenses (Checks Nos. 26, 31) (as per memo book).....	20.00	\$88.25
		\$239.10

Net Income.....		<u>\$10.90</u>
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It often happens that a single bill paid by one check will contain items which should be classified under different accounts. This would be true, for example, of charge purchases at a department store in which the bill of a particular month would perhaps contain items of clothing for different members of the family, furniture and furnishings, and other purchases of a miscellaneous character.

In all such cases the bill should be carefully analyzed and the items shown under their proper classes, regardless of the method used of keeping the accounts.

Budgets.—A budget is a forecast of the year's income and expenses; an estimate made at the beginning of the year of the expenses of the forthcoming year, properly classified.

Such an estimate is exceedingly helpful in assisting the family in planning its expenses and establishing its scale of living, and in keeping the expenses safely within the expected income. The budget should be based upon a study of the expenses of the preceding year, taking into consideration any anticipated changes in living conditions, etc.; furthermore, it should be prepared in permanent form, so that actual monthly expenses may be compared with the estimated, and increases and decreases noted. It thus serves as a chart or compass by which financial distress may be averted.

Perhaps the chief advantage of the budget is the habits of foresight and anticipation of future expenses which it develops. It calls attention to those months which make the heaviest demands upon the family income, and by doing so enables one to make provisions to meet such expenses one or more months in advance. The expenses for the summer vacation, the Christmas season, the life insurance premiums, the clothing bills in the spring and fall, may thus be planned for in advance and may be met out of past savings, rather than by imposing a burden upon future earnings. This is probably the most important lesson in home finance, and if carried out should put an end to most of the worries and disputes which are so likely to arise in the administration of the home.

There are many families that do not have available a fixed monthly or weekly income, such as the physician, dentist, salesman working on a commission, and others. This injects a factor into the making of the budget and the planning of the year's expenditures which must be given careful consideration. In such cases, the income of preceding years should serve as a basis for estimating that of the current year, which means that there is still another reason for such families keeping an

accurate record of all income. Usually, it would be found that there is a normal, average monthly income which can be relied upon with some certainty, and the expenses planned accordingly.

To a great extent, each family is the architect of its own budget, and the numerous attempts by economists and others at standardizing the apportionment of income of varying amounts are of help only in a general way. So much depends upon occupation or profession, station in life, tastes, social activities, the size of the family, the age and sex of children; and other conditions peculiar to the individual family.

In the case of planning the budget for the first time, with no definite information to draw upon, a standardized budget may be of some assistance, or recourse may be had to experiences of other families.

Following is a table prepared by Earl G. Manning, showing the apportionment of incomes of from \$1,000 to \$5,000, the budgets being based upon a family consisting of two adults and two children. Attention is called to the fact that this table was prepared prior to the present war, and would be subject to certain adjustments due to wartime prices.

YEARLY HOME BUDGETS

Yearly Income	Food	Rent	Clothes	Operating Expense	Advancement	Insurance and Savings
\$1,000	\$300	\$200	\$100	\$150	\$100	\$150
1,200	330	300	150	150	100	170
1,500	375	300	150	225	200	250
1,800	400	400	200	270	240	290
2,000	450	400	250	350	250	300
2,500	500	400	250	450	450	450
3,000	550	500	325	550	450	625
3,500	650	575	475	575	500	725
4,000	675	600	500	625	600	1,000
5,000	725	700	650	750	775	1,400

"Advancement," as used in the above table, includes contribution to church and charity, dues in clubs and societies, tuition, books, music, lectures, travel, amusements, vacations, and such things.

It is generally considered that not more than from 20 to 25 per cent. of the income should be spent for rent, from 25 to 35 per cent. for food, 20 per cent. for operating expenses, the remainder for clothing, recreation, savings and insurance. Such percentages are subject to great variation in incomes of different sizes and applied under different conditions.

Perpetual Inventory of Household Furniture and Furnishings (Form 8).—Even in cases where conscientious attention is given to the household accounts, there are very few families which have ever gone to the trouble of taking an inventory of the furniture and furnishings contained in the home.

While this would undoubtedly mean too much work in the case of the family which has been accumulating the household effects for a number of years, in the family just beginning housekeeping, the work of preparing such an inventory is comparatively light. All bills and invoices are then available and the names of dealers, cost, and date of purchase may readily be determined, and comparatively little clerical work is needed to prepare the inventory.

Such an inventory is of value for several reasons; it gives an accurate summary of the cost of furnishing the home; it shows the term of service of each article of furniture and what disposition was finally made of it; it shows how much fire insurance should be carried (most families carry entirely too little); in case of fire or burglary, it is invaluable in determining what was lost and in making settlement with the insurance company; it has a distinct value for sentimental reasons.

Stock inventory records may be procured at any good stationers, or they may easily be designed on plain ruled paper.

A new page or sheet is begun for each room and each article of furniture, pictures, draperies, rugs and ornaments of value, listed by name, date of purchase, etc., as shown by the columns provided in the form. When an article is disposed of, a record of it is made in the "Disposed of" column. As new furniture or furnishings are bought, they are entered following the last items; gifts are entered on the inventory at nominal value or at estimated cost; the cost column should not be inked in but pencil footed, in order that it may be changed as additions are made or furniture withdrawn.

This inventory should be kept in a safety deposit drawer or other place of safe keeping and a revision made, if necessary, once or twice a year.

Safety Deposit Drawer.—The rental of a safety deposit drawer or box is an item of expense well worth while to the family having valuable papers in any quantity. The feeling of security which such a place of safe keeping gives is usually worth many times the expense incurred. In this drawer would be kept insurance policies, stocks, bonds, savings bank books, wills, contracts, copies of inventories, jewelry not in use and documents which would represent a serious loss in case of their de-

struction. It is advisable to keep in this box an inventory of its contents and also a copy of such inventory should be kept in one's home.

Most trust companies, national banks and many private safety deposit and warehouse companies have safety deposit departments where boxes may be rented from \$5 a year, or even less, depending upon the size, location, etc.

Filing Paid Bills.—In connection with the systematizing of the household affairs, some convenient method of filing paid bills should be adopted, as it is advisable to keep such bills for a few years for reference and as an evidence of payment.

The method adopted would depend upon the volume of such bills and upon the space that may be available for the files. In the ordinary home, a simple and inexpensive box file may serve the purpose quite well. The bills may be filed either alphabetically, or according to the various classes of expenses. If filed alphabetically, a separate manila folder may be used for each dealer from whom bills are received regularly, or bills of all dealers with the same initial letter may be filed in the same compartment. Filing by the classified list of expenses would mean a separate folder for Food, Clothes, Dentists and Doctors, Insurance and Taxes, etc.

If one wishes to incur the necessary expense, one would find a small vertical filing cabinet a most convenient means of filing securely such things as paid bills, correspondence, and clippings. Such cabinets are now made by many manufacturers in a style and finish suitable for the home.

The length of time which paid bills should be kept depends upon conveniences for filing and upon individual wishes in the matter. It would seem that monthly bills for groceries and provisions, gas, electricity, telephone, taxes, etc., would have no interest beyond the current year; on the other hand, bills for furniture and furnishings, clothing, doctors and dentists, and other such bills, might well be saved for a longer period, or indefinitely, as such bills are more likely to be referred to.

Charge Accounts.—Much has been written about the danger of opening charge accounts in retail stores and of having all regular purchases charged. The practice doubtless does result in many cases in reckless and extravagant buying, but such habits are not necessarily corrected by adopting a "pay as you go" policy. It is in many cases much more convenient to have current purchases charged and to pay by check at the close of the month, and if one forms the habit of paying

all monthly bills promptly, charge purchases are likely to be watched as closely as if paid in cash. However, the usual family is likely to "run up" too many accounts, and the policy of paying cash for many small and incidental expenses is to be advised.

Students' Accounts.—The arguments which apply to keeping household accounts apply with almost equal force to the student, or in fact to any individual living alone. Furthermore, any parent has a serious desire to know what the college education of his children has cost him and how the expenses of such education were distributed.

The same general methods which would be practical in keeping family accounts would work equally well in keeping students' accounts. The classification of expenses should be such that all expenses associated with the activity of the student would be shown. A student's expense book, similar to the family expense book described heretofore, combined with a memo book for recording daily expenditures would no doubt be the most convenient and satisfactory form of record.

Perhaps the most interesting and thorough investigation of students' budgets and accounts was that made by the Department of Sociology of Smith College during the college year 1914-15.¹ The system to be followed was explained to the student body at the beginning of the year and each student who volunteered to keep such accounts was supplied with an expense book of nine sheets, one for each month of the college year.

The classification of expenses prescribed in this account book was as follows:

- Tuition and Extra Fees
- Board and Room
- Clothing
- Laundry
- Traveling Expenses
- Health
- Extra Food, Recreation, Hospitality
- Dues and Subscriptions
- Books, Stamps, Stationery
- Church, Charity
- Incidentals
- Daily Totals

¹ Any one interested in a detailed account of the results of such efforts on the part of the students, is referred to the two articles listed in the bibliography on pages 73 and 74.

Investment Records (Forms 9 and 10).—If any amount of money is invested in stocks, bonds, or mortgages, a permanent record of such investments should be kept in some suitable form. Such a record serves as an inventory of securities owned and gives complete data regarding each separate security.

An appropriate book for this purpose may be procured through a good stationer, and many banking and investment houses distribute to their customers convenient and practical forms for this purpose; if a suitable book cannot be procured from either of these sources, it would be little work to design such a book on plain analysis paper. A separate record should be kept of stocks and of bonds owned because the same data does not apply to each type of security.

Notes on the Bond Register.—(a) The first entry records the purchase on May 5, 1918 of a \$1,000 First Mortgage 4 per cent. Coupon Gold Bond of the Baltimore and Ohio Railroad Company, maturing July 1, 1948, at 92 and accrued interest. Interest is paid semi-annually on January 1 and July 1.

The accrued interest is the interest from January 1, 1918, the last date on which interest was paid, to May 5, the date of purchase.

The rate of yield is the approximate return on an investment of \$920 in a bond paying 4 per cent. on the par value; in order that the bond yield that rate to the holder, however, it would have to be held until maturity. At maturity, the holder will receive in payment, the full face value of the bond. In addition therefore to the annual interest return of \$40 there is a profit on the investment of \$80 (\$1,000—\$920) which represents an increase in the rate of yield. To determine the approximate rate, the following rule applies:

To the annual interest is added each year's proportionate share of the profit realized at maturity; this divided by the cost of the bond gives the annual yield.

$$\frac{\$40 + \frac{\$80}{30 \text{ yrs.}}}{\$920} = 4.64 \text{ per cent.}$$

To obtain an accurate rate of yield, it would be necessary to use certain principles of higher mathematics as applied to investments. The above would give a rate near enough for all practical purposes.

The serial number is important for identification and description of the bond in case of loss.

(b) The second entry records the purchase of a \$500 Coupon First

and Refunding Mortgage 5 per cent. Sinking Fund Gold Bond of the Montana Power Company, maturing July 1, 1943, at $94\frac{1}{2}$ and accrued interest.

Interest is paid semi-annually on January 1 and July 1.

A "Remarks" column in an Investments Record could be used to advantage in many cases to record other information such as total bond issue, tax exemptions, etc.

Notes on the Stock Register.—(a) The first entry records the purchase on July 10, 1918 of 10 shares of American Radiator Company at 99 and brokerage. The stock is now paying a quarterly dividend of $1\frac{3}{4}$ per cent. on the 15th day of February, May, August and November.

The rate of yield is determined by dividing the annual dividend rate by the cost.

(b) The second entry records the purchase on September 1, 1918 of 20 shares of Western Railroad Company stock at $48\frac{3}{8}$ and brokerage. The stock is now paying a quarterly dividend of 1 per cent. on the 15th day of January, April, July and October.

EXERCISES IN HOUSEHOLD ACCOUNTS

1. Mr. John J. Cooper holds a responsible position with a mercantile concern in Boston at a salary of \$300 per month. He is married and has one child. He lives in a rented house for which he pays \$45 per month. On the first of each month, he gives his wife a check for \$125 which she deposits in her own account and from which she supplies the table, clothes herself and the little boy, now four years old, pays the gas, electric light and telephone bills, the wages of a maid, and a laundress who comes to the house one day a week, and meets her own sundry expenses. Mr. Cooper pays the rent and meets all the other larger or unexpected expenses, such as insurance, doctors' and dentists' bills, traveling expenses, etc. Both Mr. and Mrs. Cooper keep an accurate account in a daily memo book of all money spent, either in currency or check, and at the close of each month, after all bills have been paid, the expenses as shown by the two expense books are transferred to a monthly expense record where they are classified under proper heads.

Following are the expenses for the month of January, 1918, as taken from the "memo" books of Mr. and Mrs. Cooper. They are to be summarized on the household expense sheet which will be furnished you, in accordance with the general classification given on page 56 with any modifications which seem to you to be advisable in this particular case.

HUSBAND'S EXPENDITURES FOR JANUARY

1. Carfare 10c.; lunch 40c.; savings bank \$25.
2. Carfare 20c.; lunch 60c.; stamps 25c.
3. Carfare 10c.; lunch 45c.; laundry 50c.
4. Carfare 15c.; lunch 40c.
5. Carfare 10c.; lunch 50c.
7. Carfare 20c.; cigars \$2.50.
8. Carfare 10c.; lunch 60c.; stamps \$1.
9. Carfare 10c.; lunch 35c.
10. Carfare 10c.; lunch 40c.; telephone 10c.
11. Carfare 10c.; lunch 45c.; shine 10c.; shaving soap 25c.
12. Carfare 10c.; lunch 40c.; barber 50c.; candy 75c.
13. Church collection 25c.; cigars 50c.
14. Carfare 10c.; lunch 50c.; theater tickets \$2; magazine 25c.; laundry \$1.
15. Carfare 10c.; lunch 45c.; War Savings Stamps \$4.12.
16. Carfare 10c.; lunch 45c.; barber 65c.; shine 10c.
17. Carfare 15c.; lunch \$1.60; club dues \$15.
18. Carfare 10c.; lunch 35c.; magazine 20c.
19. Carfare 20c.; lunch \$1.20; movies 70c.
20. Stamps 10c.; tobacco 25c.
21. Carfare 10c.; lunch 40c.
22. Carfare 10c.; lunch 60c.; Literary Digest \$3; medicine 60c.; shine 10c.; wedding present \$5.
23. Carfare 10c.; lunch 50c.; repairing shoes \$1.50.
24. Carfare 10c.; lunch 40c.; movies 70c.
25. Carfare 10c.; lunch 45c.; laundry 50c.; necktie and collars \$1.50; shoes \$6.
26. Carfare 40c.; lunch 80c.; tip 20c.; War Savings Stamp \$4.12; cigars \$2.50.
27. Church collection 25c.
28. Carfare \$2; meals \$2.50; alumni dues \$2.
29. Carfare 20c.; lunch 60c.; Saturday Evening Post \$1.50; candy \$1; tailor's bills, pressing and repairing \$3.
30. Carfare 10c.; lunch 45c.
31. Carfare 10c.; lunch 40c.; newspapers for month, \$1.20; rent \$45; accident insurance \$16.50; Red Cross Membership \$2; cigars \$1; coal \$20.50.

WIFE'S EXPENDITURES FOR JANUARY

1. Savings \$5; groceries 80c.
2. Carfare 20c.; veil 38c.; candy 25c.; toilet articles 75c.
3. Kitchen utensils \$1.19; soap 30c.
4. Laundress \$2.10; groceries 81c.; thermometer 75c.
5. Maid \$6; carfare 10c.; groceries 60c.
7. Groceries 35c.; stamps 25c.
8. Groceries 75c.; clothing \$2.60.
9. Carfare 70c.; special aid fund 25c.; charity ticket 50c.
10. Carfare 10c.; movies 25c.
11. Laundress \$2.10; groceries 39c.
12. Maid \$6; groceries \$1.62; pattern 15c.

14. Carfare 10c.; bulbs 49c.; sugar 45c.; clothing \$1.19.
15. Ticket entertainment \$1; express 85c.; carfare 15c.; toilet goods 63c.; hair dresser \$1; butter \$2.65; stamps 30c.
17. Groceries \$1.34; clothing for little boy \$3.50.
18. Groceries 60c.; shoes repaired 50c.; laundress \$2.10.
19. Maid \$6; groceries 56c.
23. Carfare 10c.; groceries 85c.; postage 25c.
25. Laundress \$2.10; groceries 63c.
27. Maid \$6; groceries 60c.; carfare 10c.
29. Candy 40c.; child's barber 35c.; clothing child \$2.85.
31. Flowers for sick friend \$1; carfare 10c.; birthday present \$4; shine 10c.; toilet goods \$1. Monthly bills analyzed—Mordan-Jarsh, child \$4.27; Mrs. C. clothing \$8.34; house furnishings \$3.80; Shepard & Co.; house furnishings \$5.50; Mrs. C. clothing \$1.50; milk bill \$6.47; gas \$2.16; electricity \$4.80; telephone \$2.50; meat bill \$11.78; grocery bill \$5.29; fish \$1.47; ice 60c.; fern dish filled 75c.

After summarizing the above items on the monthly sheet, add all columns across and down, thus getting total daily expenses, total monthly expense of each class, and the final expenses for the month. Be sure that the work proves.

Judging from the one month's figures given, do you see any evidence of extravagance, on the part of either husband or wife? Do you think their living expenses are well balanced? Do you think the wife's allowance is sufficient?

2. Design a form for showing a summarized analysis of monthly income with corresponding totals for the year to meet the needs of the following case:

John R. Perry is professor of chemistry in a technical institute. In addition to his salary from the institution with which he is connected he is consulting chemist for a local concern receiving an annual retainer for his services; he receives numerous special fees in the course of a year for professional services; he has written two books from which he derives an annual royalty; he lectures occasionally and contributes to professional journals for which he is well paid; he has some money invested in stocks and bonds; he gives a course in a summer school.

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CHAPTER XII

PERSONAL ACCOUNTS

The methods which have been recommended for keeping household accounts are intended to apply in particular to the family or individual of moderate means with little or no income except that derived from wages or from a salary.

Such simple methods would not, however, be appropriate for the man or woman of considerable private wealth, consisting of large real estate holdings, investments in stocks, bonds, mortgages, etc., and with expenses correspondingly large. For such persons, a system of keeping the accounts should be adopted which would give in a properly classified form a complete account of all income derived from the different sources, which would show the cost of maintaining the several parcels of real estate, which would properly account for all expenses, and, finally which would show the exact state of one's finances.

Under such circumstances the accounts may be kept more satisfactorily by double entry; no more clerical work is required, the person keeping the accounts has a constant check upon the accuracy of the work, a more extensive classification of income and expense is possible, and accounts are also kept which make it possible to prepare a simple balance sheet thus giving an accurate statement of the person's wealth.

It is to be assumed in such cases that the accounts instead of being kept by the individual himself would be in hands of a private secretary, or some other person capable of performing the work satisfactorily. In addition to keeping the accounts, such a person would doubtless be expected to keep a record of the investments, would have access to the safety deposit box in which the securities are kept, clip bond interest coupons, deposit in bank all income received, draw checks, check and approve bills, file cancelled checks and paid bills and perform other routine duties connected with the administration of the financial affairs of such a person.

The following exercise is designed to afford practice in certain of the above duties and in keeping the books, and to familiarize the student with certain practical matters connected with the handling of property and investments.

JAMES HOWELL EXERCISE

You have been engaged as private secretary to James Howell, president of the Brighton National Bank, Boston, Massachusetts. Your duties will consist mainly in serving him in a private capacity, in keeping his accounts, in caring for his investments, and in performing other duties of a confidential character. You will have a desk in his private office at the bank, and during your spare time will assist him in certain work connected with his official position. You are engaged by Mr. Howell, personally, however, and your salary is paid by him.

Mr. Howell tells you that his personal affairs have never been properly attended to and that no plan has ever been worked out for keeping his private accounts. He has undertaken to keep some record of receipts and expenditures himself, but he knows nothing about bookkeeping, has no interest in such work and has been obliged to rely largely upon his check book stubs for any needed information regarding his finances. During the past two or three years the loose methods that he has employed have been particularly annoying and unsatisfactory because of the exacting requirements of the Federal and state income tax laws. Because of the desire for a more complete and accurate accounting of his private finances, and because of steadily increasing business cares, he wishes to give you full authority over such matters and to have you assume entire responsibility concerning the details of his financial affairs.

Your work with Mr. Howell begins September 1, but he does not think it advisable for you to undertake to bring his accounts for the year up to date. He suggests that you devote the month of September to becoming acquainted with your duties, in accumulating the necessary information about his finances, in planning a method of keeping his accounts, and in procuring the necessary blank books, files, etc. The work can then actually be begun on October 1.

In talking with Mr. Howell on two or three occasions, he supplies you with the necessary information regarding his personal estate and with the details of his income, the nature of his expenses and other matters which it is necessary for you to know. He tells you that he receives a salary of \$15,000 as president of the bank, which is paid to him in monthly installments. With his assistance you prepare a list of his holdings of stocks and bonds of various companies, and of the name, location, and costs of several parcels of real estate which he owns; he owns his own residence and has a summer home in Maine; he owns a motor boat and two automobiles, one a touring car and the other a small car for town use; his life is insured for \$100,000, the insurance being carried in three companies,

his family consists of his wife and two children, one a daughter in college and a son in preparatory school; his wife has an allowance which is expected to cover only her personal expenses; the house bills all come to him for payment and he pays the servants and chauffeur; he pays the tuition of both daughter and son, and gives each a monthly allowance; he expects them to render to him monthly an itemized summary of expenditures.

Mrs. Howell has an income from some property and investments in her own name, but you will have nothing to do with her accounts.

Investment Terms.—In order that the present exercise may be more helpful to the student and that more intelligent work may be done, a careful study should be made at this point of the Investment Terms on pages 94–97.

Following is a schedule of Mr. Howell's holdings of stocks, bonds and mortgages as of October 1.

STOCKS

(Par value, \$100 per share, unless otherwise stated. The cost of certain stocks is given as so many dollars a share, while the cost of others is given in per cent.)

- 1 25 shares, Boston and Manchester Railroad, bought at $128\frac{1}{2}$.
- 2 100 shares, Globe Manufacturing Company, bought at \$87.50 per share. \$8,750
- 3 115 shares, Brighton National Bank, bought at \$150.
- 4 50 shares, 6% Preferred stock of the Pittsburgh Steel Company, bought at $95\frac{1}{2}$.
- 5 140 shares, Crescent Copper Company bought at par; \$5 per share.
- 6 35 shares, 7% Preferred stock of Wright & Company, bought at $104\frac{1}{4}$.
- 7 10 shares, Springfield Elevated Railway, bought at \$100.
- 8 5 shares, 7% Preferred stock of the Central Chemical Company, bought at \$60.
- 9 25 shares, Ohio Central Railroad, bought at 80.
- 10 10 shares, U. S. Telephone, bought at 130.

The student should now calculate the total cost of all stocks owned in preparation for the opening entry to be made later.

BONDS

- 1 \$10,000 First Mortgage 5 per cent.'s of the Eastern Power Company, bought at 97; interest payable May 1 and November 1.
- 2 \$5,000 U. S. Telephone Collateral Trust, $4\frac{1}{2}$'s 1940, bought at par; interest payable April 1 and October 1.

- 3 **\$2,000** Pacific Coast Line, General Mortgage $4\frac{1}{2}$'s, 1964, bought at 95; interest payable May 1 and November 1.
- 4 **\$1,000** New York City $4\frac{1}{4}$'s, 1918, bought at $97\frac{1}{2}$; interest payable June 1 and December 1.
- 5 **\$5,000** Ohio Central Railroad Consolidated 4's, 1960, bought at 92; interest payable January 1 and July 1.
- 6 **\$5,000** Pittsburgh Steel Company, First Mortgage 5's, bought at $98\frac{1}{2}$; interest payable March 1 and September 1.
- 7 **\$5,000** Second Liberty Loan 4's bought at par; interest payable June 15 and December 15.
- 8 **\$1,000** Boston Rapid Transit Company 5's, 1975, bought at 90; interest payable June 1 and December 1.
- 9 **\$2,000** City of Springfield 4's, 1918, bought at 98; interest payable May 1 and November 1.
- 10 **\$3,000** Dominion of Mexico 5's, 1927, bought at 90; interest payable January 1 and July 1.
- 11 **\$10,000** Kansas Pacific Railroad Company 5's, 1933, bought at $96\frac{3}{4}$; interest payable March 1 and September 1.
- 12 **\$500** Consolidated Gas Company 6 per cent. notes, 1924, bought at par; interest payable June 1 and December 1.

The student should now calculate the total cost of bonds owned in preparation for the opening entry to be made later.

MORTGAGES

A first mortgage of \$5,000 on real estate owned by W. T. Morgan, 34 Suffolk Street, City, bearing 6 per cent. interest payable semi-annually, June 1 and December 1, and maturing December 1, 1918.

A first mortgage of \$3,000 on real estate owned by Charles E. Norris, 47 Akron Street, City, bearing 6 per cent. interest payable January 1 and July 1; mortgage payable on demand.

LIFE INSURANCE POLICIES

Mr. Howell's life is insured in the following companies and for the following amounts:

A \$25,000, twenty-payment life policy in the Northeastern Mutual Life Insurance Company, taken out in 1905; premium payable June 1; total premiums paid to date, \$9,612.80.

A \$50,000 straight life policy in the Boston Life Insurance Company, taken out in 1912; premium payable November 1; total premiums paid to date, \$7,976.40.

A \$25,000, twenty-year Endowment policy in the West Penn Mutual Life Insurance Company, taken out in 1910; premium payable October 15; total premiums paid to date, \$12,000.

REAL ESTATE

Mr. Howell owns the following real estate:

Residence at 125 Bay State Avenue, Cambridge, cost, \$25,000.

Summer home, "Green Gables," at Benton Harbor, Maine, which cost \$12,600.

Office building, 426 Main Street, City, which cost \$38,612 on which the Tremont Savings Bank holds a mortgage of \$15,000, payable on demand, and bearing 5 per cent. interest payable semi-annually on May 15 and November 15.

Two, two-family houses, 36 and 38 Perkins Street, Allston, Mass., costing \$8,500 each.

Three lots on Magnolia Terrace, Brookline, Mass., costing to date with all carrying charges, \$7,690.28.

Garage, built in 1912 in the rear of the residence at a cost of \$2,147.

In addition to the stocks, bonds, mortgages, and real estate which Mr. Howell owns and the insurance policies which he carries, you make up the following list of his personal property which is of sufficient value and importance to bring on his books:

Cash (checking account, Brighton National Bank).....	\$1,040.00
Cash (checking account, Franklin Trust Company).....	1,412.63
Federal Savings Bank.....	1,141.28
Automobiles (appraised value).....	5,000.00
Motor boat (cost, 1918).....	2,500.00
Furniture and Furnishings (125 Bay State Avenue; appraised value)....	10,000.00
Furniture and Furnishings (Green Gables cottage; appraised value).....	5,000.00
Library	1,000.00

Now that the necessary data has been collected, you are ready to proceed with your plans for opening the books and beginning the work of keeping Mr. Howell's accounts as of October 1, 1918.

The books are to be kept by double entry and are to consist of a Journal, Cash Book and Ledger. These books are ordered, the selection being of good binding, good quality of paper, size of each, $8\frac{1}{2} \times 14$; the journal is a 100-page book, the cash book and ledger, 200 pages each. You procure new check books for each checking account. While Mr.

Howell has a checking account in his own bank, it is used mainly for his own personal drawings; most of his personal and family bills are paid by checks on the Franklin Trust Company account.

Following is the classification decided upon for the general ledger accounts:

LEDGER ACCOUNTS

ASSETS:

- Cash
- Federal Savings Bank
- Investments—Stocks
- Investments—Bonds
- Mortgages Receivable
- Life Insurance Premiums—Northeastern
- Life Insurance Premiums—Boston Life
- Life Insurance Premiums—West Penn. Mutual
- Residence—125 Bay State Avenue, Cambridge
- Green Gables—Benton Harbor, Maine
- 426 Main Street, City
- 36 Perkins Street, Allston
- 38 Perkins Street, Allston
- Magnolia Terrace Lots, Brookline
- Garage
- Furniture and Furnishings—Residence
- Furniture and Furnishings—Green Gables
- Library
- Automobiles
- Motor Boat

LIABILITIES AND CAPITAL:

- Mortgage Payable
- James Howell, Capital

INCOME:

- // Salary
- Income from Stocks
- Interest on Bonds
- Interest on Mortgages Receivable
- Interest on Bank Balances
- Income—426 Main Street
- Income—36 Perkins Street
- Income—38 Perkins Street
- Profit on Sale of Securities
- Profit on Sale of Land

EXPENSE:

- Maintenance of Residence
- Maintenance of Green Gables
- Maintenance of 426 Main Street

Maintenance of 36 Perkins Street
 Maintenance of 38 Perkins Street
 Household Expense
 Groceries and Provisions
~~Income Taxes~~
 James Howell—Personal Expense
 Mrs Howell—Allowance
 Mary Howell—Allowance
 James Howell, Jr.—Allowance
 Automobile Expense
 Motor Boat Expense
 Secretarial Expense
 Loss on Sale of Securities
 CLOSING ACCOUNT:
 Income and Expense

FUNCTIONS OF CERTAIN ACCOUNTS PECULIAR TO THIS EXERCISE

One Cash account is kept with the two checking accounts; it is debited monthly with total cash receipts and credited with total payments; the balance at the close of the month should equal the balance in the Brighton National Bank as per the check book plus the balance in the Franklin Trust Company.

SAVINGS ACCOUNT—FEDERAL SAVINGS BANK

Debit:

When the account is opened with the amount deposited, with all subsequent deposits, and with interest accumulations.

Credit:

With withdrawals.

The balance represents the amount in bank and is an asset. This balance should at all times agree with the balance shown by the Pass Book.

INVESTMENTS—STOCKS

Debit:

With the cost of stocks purchased, including brokerage.

Credit:

With the cost of stocks sold. (At time of sale, the difference between cost and selling price if a profit is credited to Profit on Securities Sold; if a loss, debited to Loss on Securities Sold.)

The balance is a debit representing the cost of stocks owned, and is an asset.

INVESTMENTS—BONDS

Debit:

With the cost of bonds purchased, including brokerage. When bonds are purchased "With accrued interest," the interest should be debited to Interest on Bonds.

Credit:

With the cost of bonds sold; with the cost of bonds paid off at maturity. (If a profit on the cost of bonds is realized at sale or maturity, credit Profit on Sale of Securities; if a loss, debit Loss on Sale of Securities.)

The balance is a debit representing the cost of bonds owned, and is an asset.

Mortgages Receivable.—This account is handled the same as the Notes Receivable account explained on page 12.

LIFE INSURANCE PREMIUMS (SEPARATE ACCOUNT WITH EACH POLICY)

Debit:

With annual premiums paid on the policy.

Credit:

While the policy is still in force, the account is shown as an asset equal to total premiums paid thereon. If, however, the policy were dropped and payments discontinued, the amount recovered from the company would be only its "cash surrender" value, an amount much less than the premiums paid thereon. Strictly speaking, therefore, an account with an insurance policy should be carried as an asset only at its cash surrender value. To accomplish this, when the annual premium is paid, the account with the policy is debited only with such an amount as will raise the account to its surrender value for the current year. The surrender value is determined from year to year by a table contained in the policy. The remainder of the premium would be charged to Insurance Expense.

While this treatment would be advisable where insurance is carried by a firm on the life of a partner or officer of the company, and is likely to be discontinued at any time, it is not of such consequence when the policy in all probability will remain in force and payments made thereon throughout its entire term. The method recommended of charging the full amount of the premium to the asset account may safely be followed in such cases.

When an endowment policy matures and is paid by the company, the above account should be credited with an amount equal to the total premiums paid thereon, thus closing the account, the difference

between such amount and the face of the policy being credited to a special income account, or to the capital account of the individual.

Should a policy be discontinued when it has been carried as herein recommended, the account would be credited with the amount recovered, and the loss shown by the account closed into a special account showing such loss.

When a term-life policy is taken out, the account is carried on the books from year to year as an asset equal to the total premiums paid thereon until the death of the policy holder, or until some special option is accepted in settlement, when proper entry and adjustment must be made.

Improved Property.—The four accounts with improved property are carried in accordance with the principles applying to any real estate account, being debited with cost, plus permanent improvements and additions.

Unimproved Land (Magnolia Terrace Lots).—Unimproved land is debited with cost and with all charges incurred from year to year in connection therewith, including expenses of passing title, construction of sidewalks and other city assessments, taxes, grading, cutting grass, etc. If only a part of the land is sold, as for example, one lot out of several carried in the same account, the account should be credited with the cost of the land sold, the profit or loss resulting from the sale being credited or debited to an account opened for that purpose. The balance of the account must at all times show the cost of land owned.

Furniture and Furnishings.—These accounts are debited with the purchase price or appraised value of furniture and furnishings purchased including furniture, carpets, rugs, tapestries, draperies, pictures, statuary, lamps, bed and table linen, kitchen utensils, etc.

Library.—With cost or estimated value of books, manuscripts, prints, maps, bulletins and pamphlets.

AUTOMOBILES

Debit:

With cost of automobiles bought, including freight and delivery charges.

Credit:

Yearly, with estimated depreciation reckoned on the purchase price, at the same time debiting Automobile Expense. (While this is not the best method of handling depreciation, yet it illustrates a method which is simple and practical in private accounting.)

The balance represents the estimated present value of the automobile and is an asset.

Motor Boat.—Handled in the same way as the account with automobiles.

Mortgage Payable.—This account is handled in the same manner as the Notes Payable account explained on page 12.

James Howell—Capital.—See discussions of the Proprietor's account on page 12.

Income Accounts.—The titles of these accounts suggest their function. Each is credited with the income derived from the source indicated and is closed at the end of the calendar year into the Income and Expense account.

Maintenance Accounts.—A separate maintenance account is kept with each parcel of improved property. The account should be debited with taxes, insurance, repairs, water rents, janitor's and caretaker's services, interest on mortgages, broker's commissions for securing tenants, and all other expenses incurred through the ownership of the property.

Household Expense.—This account should be debited with electricity, gas, wages of servants, telephone, ice, insurance on furniture and furnishings, replacements of furniture and furnishings, repairs of furniture and furnishings, etc.

James Howell—Personal Expenses.—This account is charged with all cash drawn by Mr. Howell to meet his personal expenses; also debited with all bills paid applying on his personal account, including clothing, church and club dues, donations, contributions, etc.

Allowance Accounts.—These accounts should be charged with the monthly allowance given to the wife and children and with any bills paid on their behalf.

Automobile Expense.—With gasoline, oil, tires, automobile blue books, state license, insurance, repairs, garage bills while traveling, garage expenses at home, chauffeur's salary and livery, depreciation on cars, and with all other expenses incident to the ownership of the car.

The account with Motor Boat Expense is handled in a similar manner.

Secretarial Expense.—This account is debited with secretary's salary and with supplies such as stationery, postage, typewriter ribbons, account books, etc.

Miscellaneous Expense Accounts.—The function of accounts not specifically defined should be clearly indicated by their titles.

BOOKKEEPING PROCEDURE FOR THE STUDENT

The necessary information regarding the financial affairs of Mr. Howell now having been obtained, and the classification of accounts decided upon, work may be started in opening the books. It may be well beforehand to emphasize the necessity of the student becoming thoroughly familiar with Mr. Howell's affairs, with the classification and function of all accounts and with the work which is to be undertaken.

You may first open the general ledger accounts in the order in which they appear in the classified list allowing one-half page to accounts with assets and liabilities and a page to each of the income and expense accounts.

After the ledger accounts have been opened, information may be assembled to be used in making the opening journal entry for the new set of double entry books. The purpose of an opening entry is to bring onto the books the assets and liabilities as of the date the books are being started. By the first entry, the individual assets should be debited to their proper accounts, Mr. Howell being credited with the total; by a second entry, the individual liabilities are credited to their proper accounts and Mr. Howell debited for the total. When these entries are made and posted, accounts will have been established for all assets and liabilities, and Mr. Howell's account will show the amount of his estate, or his wealth, as of the opening date.

On the first page of the journal and preceding the entries referred to above, a brief narrative of the facts associated with the establishment of the system should be recorded. This should describe briefly the books to be employed, and reference made to the schedules of investments, the terms of mortgages receivable and payable defined, an outline given of the insurance policies, mention made of his personal property, and other matters of value from an historical standpoint. This is an important bit of writing and should be drafted in the student's own language, and copied as explained above. The journal page should be headed, Boston, Massachusetts, October 1, 1918.

This introduction should be followed by the opening entries which would be in the form given herewith.

"The following entries are made to bring on the books the personal assets and liabilities of James Howell as of October 1, 1918.

Cash.....	\$2,452.63
Federal Savings Bank.....	1,141.28
Investments—Stocks.....	42,936.25
Investments—Bonds.....	47,835.00
Mortgages Receivable.....	8,000.00
Life Insurance Premiums—Northeastern.....	9,612.80
Life Insurance Premiums—Boston Life.....	7,976.40
Life Insurance Premiums—West Penn Mutual.....	12,000.00
Residence—125 Bay State Avenue, Cambridge.....	25,000.00
Green Gables—Benton Harbor.....	12,600.00
426 Main Street, City.....	38,612.00
36 Perkins Street, Allston.....	8,500.00
38 Perkins Street, Allston.....	8,500.00
Magnolia Terrace Lots, Brookline.....	7,690.28
Garage.....	2,147.00
Furniture and Furnishings—Residence.....	10,000.00
Furniture and Furnishings—Green Gables.....	5,000.00
Library.....	1,000.00
Automobiles.....	5,000.00
Motor Boat.....	2,500.00
James Howell.....	\$258,503.64
James Howell.....	15,000.00
Mortgage Payable.....	15,000.00

OCTOBER TRANSACTIONS

Enter cash balance as of October 1 in the cash book:

- 1st. Received rents for October from certain tenants of 426 Main Street, \$290.
 Received salary check. *1 month's pay*
 Received bank statements showing interest credited of \$4.92.
 Received semi-annual interest on U. S. Telephone bonds ($2\frac{1}{4}$ per cent. of \$5000).
- 2d. Received rent from one of the tenants at 36 Perkins Street, \$40.
 Mr. Howell withdraws \$100.
 Send checks for monthly allowances to Mrs. Howell, \$200; daughter, \$100; son, \$50.
- 3d. Received rents from other tenants at 426 Main Street, \$530; received rent from the two tenants at 38 Perkins Street, \$40 and \$45.
- 4th. Paid servants and other employees for the week as follows: janitor

at 426 Main Street, \$22.50; gardener and janitor at residence, \$25; servants, \$35; chauffeur, \$25. The secretary is paid monthly.

- 7th. Received rent from tenant at 36 Perkins Street, \$45.
- 10th. Received quarterly dividend at the rate of 7 per cent. per year from Central Chemical Company. *\$ 75*
- 11th. Paid servants and other employees for the week. (Same as the 4th.)
- 15th. The Cambridge tax rate for the year is \$19.75 per thousand. Paid the tax bill on the residence which is assessed for \$21,000. *414 75*
The Boston tax rate is \$17.80. Paid the tax bill on 426 Main Street, which is assessed for \$34,600, and on the Perkins Street properties assessed for \$8,100 each. *main*
The Brookline tax-rate is \$14.20. Paid tax on Magnolia Terrace lots assessed for \$6,200. *capitalize carrying charges*
Paid the annual premium of \$1,500 on the West Penn Mutual Life Insurance policy.
- 16th. Received quarterly dividend on U. S. Telephone stock at the rate of 8 per cent. per annum. *250 20*
Received quarterly dividend at the rate of 6 per cent. per annum on Pittsburgh Steel Company stock. *120 75*
- 18th. Paid servants and other employees for the week.
- 20th. Paid Mr. Howell's dues in the Union Club for the current year, dating from October 1, \$50. Paid bill of H. C. Poulson & Co. for secretary's supplies, and personal stationery, \$24.75.
- 22d. Mr. Howell withdrew \$75.
- 25th. Paid servants and other employees for the week.
- 31st. Paid the following October bills:

City Gas Company.....	\$14.81
Edison Lighting Company.....	18.30
Bell Telephone Company.....	10.00
John A. Conway Company, groceries.....	42.65
Manhattan Market, meats, vegetables, fruit..	161.27
H. P. Wood & Co., milk and cream.....	28.30
City Ice Company.....	8.00
Secretary's Salary.....	100.00
Columbia Garage, gasoline, oil, repairs.....	42.60

Balance the cash book, do all posting to date from cash book and journal and take a trial balance. In posting, write brief explanations of the more important items in the space provided. This makes the ledger more valuable as a reference and aids in analyzing the accounts.

bring 1 type
88

trial balance

ELEMENTS OF ACCOUNTS

NOVEMBER TRANSACTIONS

Begin the November transactions on a new page in the cash book, bringing forward the cash balance as of October 31.

- 1st.** Received salary check.
Received bank statements showing interest on daily balances of \$6.84.
Received semi-annual interest on bonds of the Eastern Power Company.
Received rents from 426 Main Street, \$400; from 36 Perkins Street, \$45.
Paid servants and other employees for the week.
- 2d.** Received rent from 38 Perkins Street, \$40.
Received semi-annual interest on Pacific Coast Line bonds.
Received semi-annual interest on City of Springfield bonds.
Paid annual premium of \$1,312.40 on policy carried in the Boston Life Insurance Company.
- 3d.** Received rents from 426 Main Street, \$220.
Gave Mrs. Howell, the daughter and son, their allowances for the month.
Mr. Howell drew \$150 for his personal use.
- 5th.** Took savings bank book to the bank and had semi-annual interest added at the rate of 4 per cent. per annum, calculated on the former balance of \$1,141.28. (Journal entry.)
- 7th.** Received rents from 426 Main Street, \$160; from 38 Perkins Street, \$45.
- 8th.** Paid servants and other employees for week; no change except an increase of \$5 in wages of house servants.
- 11th.** Paid on account of daughter's tuition at Vassar, \$100; on account of son's tuition in preparatory school, \$300. (Charge allowance accounts, as these accounts are intended to show the entire amount advanced to the children or expended on their behalf.)
- 12th.** Received semi-annual dividend at the rate of 6 per cent. per annum on the Boston and Manchester Railroad stock.
- 15th.** J. W. Whitten, a real estate agent has sold one of the Magnolia Terrace Lots for \$4,500, and has sent us a check for this amount. The three lots are regarded as equally valuable. (See discussion of how to handle accounts with Unimproved Land on page 83 for assistance in making entry.)

Payroll for week on same basis as the 8th.

Paid semi-annual interest on the mortgage on 426 Main Street held by the Tremont Savings Bank.

18th. Received a quarterly dividend of 3 per cent. on the stock of the Brighton National Bank.

21st. Bought two new automobile tires, \$62.50.

Paid water rent for six months as follows: residence, \$20; 426 Main Street, \$61; 36 Perkins Street, \$12.50; 38 Perkins Street, \$14.75.

22d. Paid wages for the week.

25th. Received quarterly dividend at the rate of 5 per cent. per annum on stock of the Ohio Central Railroad. 31.25

29th. Paid wages for the week.

Gave a check of \$500 to the American Red Cross.

30th. Paid sundry bills for groceries and provisions, \$218.97.

Paid sundry household expense bills including electricity, gas and telephone, amounting to \$45.63.

Paid secretary's salary.

Paid garage bill for gasoline, etc., \$26.90.

Bought mileage book for Mr. Howell, \$20.

Paid expenses of motor boat, including repairs, gasoline, storage, etc., \$64.30.

Paid membership dues of Mr. Howell in the Atlantic Yacht Club, \$100; paid month's club bill in the Union Club, \$24.65.

Balance cash book, post, and take a trial balance. Do not neglect the posting of the journal entry on the 5th.

DECEMBER TRANSACTIONS

1st. Received salary check.

Received rents from 426 Main Street, \$125.

Received bank statement showing interest on daily balances, \$9.36.

Received rent from 36 Perkins Street, \$45.

Received semi-annual interest on New York City Bonds; semi-annual interest on Rapid Transit Bonds; semi-annual interest on Consolidated Gas Company notes.

2d. Received rents from 426 Main Street, \$300; from 38 Perkins Street, \$40.

Gave Mrs. Howell, the son and daughter, checks for their allowances.

James Howell withdrew \$100.

- ✓ 3d. W. T. Morgan paid off the mortgage of \$5,000 on his property, due December 1, together with semi-annual interest to that date.
Received rents from 426 Main Street, \$420; from 38 Perkins Street, \$45.
- 6th. Paid wages for week.
- 10th. Received quarterly dividend at rate of 7 per cent. per annum on Wright & Company Stock.
- 12th. Mr. Howell received a cash legacy of \$5,000 from the estate of an aunt. (Credit Mr. Howell's capital account.)
- 13th. Paid wages for week.
Paid bill of W. H. Richardson & Company for clothing bought by Mr. Howell for his own use, \$180.
Paid bill of Jackson & Company for a Saxony Rug for the residence, \$175.
- 15th. Received semi-annual interest on the Second Liberty Loan bonds.
Received semi-annual dividend at the rate of 6 per cent. per annum on the Springfield Elevated Railway stock.
- 17th. Renewed fire insurance policies paying premiums as follows: residence, \$41.50; 426 Main Street, \$283.75; furniture and furnishings, residence, \$25. *check at bank*
- 19th. Sold the Consolidated Gas Company notes for 102, and accrued interest from December 1. (Review function of Investment accounts on pages 81 and 82.)
- 20th. Paid wages for week.
Bought twenty-five shares Lightning Express Company stock at $84\frac{1}{2}$ plus brokerage, $\frac{1}{8}$ per cent. *for share*
Received quarterly dividend at the rate of 8 per cent. per annum on the stock of the Globe Manufacturing Company.
- 22d. "Rights" have been issued to stockholders of the U. S. Telephone Company granting the privilege to old stockholders of subscribing to a new stock issue soon to be made. As Mr. Howell does not wish to take advantage of this privilege, the ten rights are sold at \$8.20 each, less broker's commission of 10c. per "right." (Credit Income from Stock.)
- 23d. Paid bill of painter and paper hanger for painting wood work and papering two rooms in one of the suites at 38 Perkins Street, \$54.75.
- 24th. Sold twenty-five shares of the Globe Manufacturing stock at \$150 per share. *check at bank*

- 27th.** Mr. Howell withdrew \$100 for personal use.
Paid tax on Green Gables cottage, \$192. *as in 4th*
Paid bill for painting cottage, \$620.45. *as in 1st*
Paid wages for the week.
- 28th.** Mr. Howell has made the following investments: \$5,000 Sinking Fund 6 per cent. bonds of the Jacksonville Power Company, 1940, interest payable March 1, and September 1. Bought at 98¾ and accrued interest. (Interest calculated for exact days since September 1.) Debit Interest on Bonds for the interest accrued. \$5,000 First Mortgage 5 per cent. bonds of the Rockland Railroad Company, 1935, interest payable, April 1 and October 1. Bought at 97 and accrued interest.
- 29th.** Sent check to Second Presbyterian Society in payment for pew rent for year, \$100.
Paid bill for repair of boiler at 426 Main Street, \$85.
Paid coal bills as follows: 426 Main Street, \$312.50; residence, \$226.50.
- 30th.** Sold the Crescent Copper stock at \$2.25 per share. (Make journal entry for the loss on the sale of this stock; debiting Loss on Sale of Securities.)
- 31st.** Paid sundry bills for groceries and provisions, \$204.25.
Paid sundry household expense bills, including electricity, gas, and telephone, \$62.50
Paid secretary's salary.
Paid garage bill, \$39.65.
Paid tailor's bill for Mr. Howell, \$136.80; dentist's bill, \$30; bill for personal laundry, for three months, \$12.50.

B. M. Chapin, one of the tenants at 36 Perkins Street, has not paid his rent for two months. Make an entry in the journal charging him with the amount due from him, \$80.

Preparatory to closing the books and preparing statements to submit to Mr. Howell, you may write off 25 per cent. depreciation on the cost of the two automobiles, (\$5,000), charging Automobile Expense.

Balance the Cash book, post from cash book and journal, and take a trial balance.

Work Required in Closing the Books.—1. Prepare a statement of income and expense for the three months ending December 31, 1918.

The following model shows the form and arrangement of such a statement, figures being omitted.

ELEMENTS OF ACCOUNTS

JAMES HOWELL
STATEMENT OF PERSONAL INCOME AND EXPENSE
OCTOBER 1, 1918—DECEMBER 31, 1918

INCOME FROM ALL SOURCES:

Salary		\$**
Income from Stocks		**
Interest on Bonds		**
Interest on Mortgage Receivable		**
Interest on Bank Balances		**
Profit on Sale of Securities		**
Profit on Sale of Land		**
Net Income from Real Estate:		
426 Main Street:		
Received from tenants	\$**	
Less—Maintenance	**	**
36 Perkins Street:		
Received from tenants	\$**	
Less—Maintenance	**	**
38 Perkins Street:		
Received from tenants	\$**	
Less—Maintenance	**	**

Total Income

\$**

DEDUCT:

Personal, Family and Household Expenses:

Maintenance of Residence	\$**
Maintenance of Green Gables	**
Household Expense	**
Groceries and Provisions	**
James Howell—Personal	**
Mrs. Howell—Allowance	**
Mary Howell—Allowance	**
James Howell, Jr.—Allowance	**
Automobile Expense	**
Motor Boat Expense	**
Secretarial Expense	**
Loss on Sale of Securities	**

Total Expense

\$**

Net Income

\$**

2. Prepare balance sheet as of December 31, 1918. The preparation of this statement should give no trouble as it will be no different in form and arrangement from those prepared in past exercises; it is not necessary to make any classification of assets and liabilities.

3. Write up the closing entries in the journal, post them, and balance and rule general ledger accounts.

Following is the form of the closing entries, figures being omitted:

CLOSING ENTRIES, DECEMBER 31, 1918

Salary	\$**
Income from Stocks	**
Interest on Bonds	**
Interest on Mortgage Receivable	**
Interest on Bank Balances	**
Income—426 Main Street	**
Income—36 Perkins Street	**
Income—38 Perkins Street	**
Profit on Sale of Securities	**
Profit on Sale of Land	**
Income and Expense	\$**

To close all accounts which represent an income into the Income and Expense Account.

Income and Expense	\$**
Maintenance of Residence	**
Maintenance of Green Gables	**
Maintenance of 426 Main St. <i>went in here - closed into income</i>	**
Maintenance of 36 Perkins St.	**
Maintenance of 38 Perkins St.	**
Household Expense	**
Groceries and Provisions	**
James Howell—Personal Expense	**
Mrs. Howell—Allowance	**
Mary Howell—Allowance	**
James Howell, Jr.—Allowance	**
Automobile Expense	**
Motor Boat Expense	**
Secretarial Expense	**
Loss on Sale of Securities	**

To close into the Income and Expense account, all accounts which show an expense or loss.

Income and Expense	\$**
James Howell, Capital	\$**

To close into James Howell—capital account the net income for the three-month period ending December 31, 1918.

In posting the closing entries, it is well to itemize on the credit side of the Income and Expense account all accounts showing an income, writing the name of the account in the explanation space, rather than showing only the total income; also to itemize on the debit side of the account, all accounts showing an expense or loss, rather than showing only the total expense. In this way, the account shows a complete summary of all income and expense and is more valuable for reference.

INVESTMENT TERMS

Corporation.—A corporation is an association of natural persons formed under the laws of a particular state as an organization by which a business or an institution may be conducted.

Corporations are divided into two general classes: namely, stock and non-stock.

A stock corporation is one having the authority to issue capital stock as an evidence of ownership of a share of the business. Such a corporation is created for the purpose of operating some private enterprise primarily for the profit of the stockholders.

A non-stock corporation is created usually for some charitable or educational purpose or to render some other public service. Such an organization is a mutual association of those who become the founders of the corporation. Included in this class are colleges, churches, clubs, hospitals, libraries, secret orders and societies, trade leagues and labor unions.

Capital Stock.—The capital stock of a corporation is the capital contributed by the stockholders of a stock corporation either in cash or property. The amount of stock which a corporation may issue is fixed by the charter received from the state, although the amount authorized may not all be issued at the time of organization.

Classes of Stock.—Capital stock may be of two kinds, common and preferred.

Common stock is the ordinary stock issued by a corporation and represents merely the ownership of certain units of the whole.

Preferred stock is stock which entitles the holder to certain preferences as to dividends and in many cases as to assets in liquidation. For example, a 7 per cent. preferred stock entitles the holder to a 7 per cent. dividend on his stock before there can be any distribution of earnings to the common stockholder.

Stock Certificate.—An engraved instrument issued to a stockholder by a corporation as evidence of the ownership of a certain number of shares of stock.

Par Value.—The par value of stock is its face value as stated in the stock certificate. The par value of a share of stock is usually \$100.

Market Value.—Market value is the price at which the stock may be bought or sold. This depends upon the nature of the business in which

the company is engaged, the prosperity of the company, the management, general market and trade conditions, and the rate of dividends which it pays.

Dividend.—A dividend is a distribution among stockholders of a part of the earnings of a corporation. Dividends may be declared quarterly, semi-annually, or annually. They are declared upon the par value of the stock either as a certain per cent. of par or as so many dollars a share.

Brokerage is the commission charged by a broker for buying or selling stock or bonds for a customer. Brokerage is usually $\frac{1}{8}$ per cent. of the par value. This amounts to $12\frac{1}{2}$ c. per share of \$100; \$1.25 for ten shares; \$12.50 for 100 shares.

Bonds.—A bond is the obligation of a private corporation or of a government to pay to the holder thereof a certain sum of money at a definite time, with interest payable at a fixed rate and at stated intervals. In other words, a corporation borrows money by the issue of bonds, the purchasers of which lend their money to the corporation for a definite term of years, and receive as compensation a certain rate of interest. The standard size or denomination of a bond is \$1,000 although many bonds are issued in denominations of \$500, \$100 and \$50.

Bonds are known by the name of the corporation issuing them, by the rate of interest which they bear, by their date of maturity and by the name of the bond.

Classes of Bonds.—As regards their form, bonds may be either registered or coupon.

Registered bonds are registered on the books of the corporation in the name of the holders. A change in ownership must be reported to the corporation so that proper transfer may be made on its books. Checks for the interest due are mailed to the registered owners of the bonds on each interest date.

Coupon bonds have interest coupons attached thereto. These coupons are payable to bearer and are detached on interest dates and are cashed at any bank or deposited. Coupon bonds are more common and are more easily negotiated; for the reason that they are payable to bearer, however, the owner runs greater risk of loss.

Distinction between Bonds and Stock.—(a) A stock holder is a part owner of a corporation; a bondholder is a creditor of the corporation.

(b) The income from investments in stocks is called dividends; from investments in bonds, interest.

(c) A dividend on stock can be declared only out of net profits; interest on bonds is a fixed charge and is deducted before net profits are arrived at.

(d) The dividend on stocks may be increased as the company becomes more prosperous; the interest on bonds is at a fixed rate.

(e) Bonds being a fixed obligation of a corporation mature at a definite time, the principal amount of the bonds being then paid to the holders; stock is not a liability of the corporation; consequently, a stockholder cannot demand of the corporation the money invested by him. In case of liquidation of the corporate affairs, however, after all the liabilities are satisfied, the residue belongs to the stockholders.

(f) Stocks are often bought and sold for speculative purposes; bonds are purchased for investment.

(g) Stocks are subject to sudden and frequent fluctuation in market value; bonds usually sell near par value.

(h) Stockholders have one vote in the management of the affairs of the corporation for each share of stock held; bondholders have no voice in the management.

Stock Quotations.—The financial page of the newspapers published in the large cities gives daily a tabulated list of the stocks bought and sold on the New York Stock Exchange with the opening, high, low, and closing prices of the stocks for that day. If there is a local stock exchange, quotations are also given of the sales on the local exchange. The prices of the stocks of the larger corporations all over the country, however, are determined largely by the New York quotations.

In following the market quotations of stocks, it is important to understand that the quotations are in per cents. of par value. A "point" rise or fall in price is 1 per cent. In the case of stock with a par value of \$100 per share, the quotation in per cent. agrees with its market value in dollars; if the par value is less than \$100, the market value in dollars is found by taking the per cent. of the par value indicated by its market quotation.

A "*Margin*" is a deposit made with a broker by one who desires to speculate in stocks. If the speculator thinks a certain stock is going to *advance* in price, he orders his broker to buy so many shares of the stock for him depositing a "*margin*" usually of 10 per cent. of the par value of the stock. The broker "*carries*" the stock until he receives orders to sell, the "*margin*" protecting him from loss should the stock decline. In the case of a decline in price, when the "*margin*" is almost wiped out by the decline, the broker calls upon the speculator for more margin and if it is not furnished, the broker sells the stock.

Speculators also sell stocks for future delivery in anticipation of a

decline in price, hoping to be able to fill the order at time of delivery at a price below the price at which it was sold. The "margin" then protects the broker should the stock advance in price.

A speculator who buys stock on "margin" in anticipation of a rise is said to "buy long," or to be "long of the market;" one who sells in anticipation of a decline in price is said to "sell short," or to be "short of the market." The name given to the first class of speculators is "Bulls;" the second class, "Bears."

Ex-dividend.—When stocks are sold ex-dividend, the seller is entitled to the dividend recently declared. The transfer books of a corporation remain closed during a period of usually ten days or two weeks between the meeting of the directors at which the dividend is declared and the date of payment of the dividend. During this period the stock sells ex-dividend.

Rights.—When a corporation increases its capital stock, "rights" are issued to holders of the old stock granting to them the privilege of subscribing to the new issue at a price below its probable actual market value. The "rights" are in the form of warrants which are certificates issued to the old stockholders stating the number of new shares which they may subscribe for. This is a certain per cent. of their present holding, as, for example, the right to subscribe for one share of new stock for every five shares of old stock held. This necessitates the issue of fractional rights to stockholders who do not hold even multiples of five shares. These warrants are transferable so that if an old stockholder does not wish to use his "rights" in subscribing for the new stock he may sell his "rights."

"Rights" are also usually issued to holders of convertible bonds.

QUESTIONS ON PRIVATE ACCOUNTS AND INVESTMENTS

1. Give several arguments in favor of keeping private and household accounts.

Under what circumstances do you think it practicable for the accounts of a private individual to be kept after the manner illustrated in the Private Accounting exercise?

2. Define the term budget; what are the economic advantages of a budget?

3. Make up a budget for a family of three with an income of \$1,800, showing the division of income among the following: Rent, Food, Clothing, General Household Expenses, Savings (including Insurance), Educational and Social, Church, Charity and Dues. Show percentage also.

4. Make up a similar budget for a family of four with an income of \$5,000, adding other classes of expenditure if you think it advisable.

5. What are your views on the advisability of maintaining an inventory of household furniture and equipment? State advantages and disadvantages.

6. Distinguish between the following standard types of life insurance policies; endowment, straight life, and term.

7. Distinguish between mutual and stock insurance companies.

8. What are the objections to assessment or fraternal insurance associations?

9. What is meant by the "cash surrender value" of an insurance policy?

10. If it is desired to carry accounts with life insurance policies on the books, at what amount should they be carried? To what class would such accounts belong?

11. In opening a set of private books for an individual who owns his residence and several pieces of investment property, what value would you recommend placing upon the property? What value would you place upon securities owned?

12. What two separate accounts should be kept with each piece of property and why? What name would you give each account for bookkeeping purposes?

13. State clearly how an account with vacant land should be handled.

14. State several important distinctions between stocks and bonds.

15. Distinguish between par and market value. Upon which value are dividends declared and interest paid?

16. What are "rights?" What is the customary rate of broker's commission? Is it reckoned upon par or market value?

17. Distinguish between a rate of dividend or interest and a rate of income.

18. How would you reckon the rate of income on securities?

19. Luther Wright bought five house lots on Crescent Street on June 10, 1914 for \$7,500; he paid for grading and sodding, \$112.50; taxes, 1914, \$86; constructing sidewalks, \$250. Jan. 12, 1915 he sold one of the lots for \$2,000. How would you handle the above on the books of Mr. Wright?

20. J. S. Snow owns 25 shares of Baltimore and Ohio Preferred, which cost him \$69. The stock pays an annual dividend of 4 per cent. What rate of income does it yield?

21. What entries would you make in a case a certain investment is written off the books because of its being worthless?

22. Make a list of the usual regular expenses, resulting from the ownership of one's home. How would you find the equivalent in monthly rent?

23. F. B. Southwick owns a business block which cost him \$75,000; he gave a purchase money mortgage for \$40,000 at 5½ per cent. From January 1 to December 31, 1914 he received in rents, \$14,000. During the same period the expenses of the property were as follows: taxes of \$17.20 on an assessed valuation of \$70,000; insurance, \$250; janitor service, \$1,200; fuel, \$832.75; lighting of corridors, stairways, etc., \$92.60; repairs, \$517.60; water rent, \$80. He takes into account an annual depreciation of 2 per cent. on cost of building. Find the net income from the property for the year; also rate of income on owner's investment.

24. Mr. Barrows owns a large piece of vacant land on Hunt Avenue. He lets bill board privileges at an annual rental of \$1.00 a front foot, and the land is leased from time to time during the year as a circus ground, for revival meetings, etc. To what account would you credit the income thus received?

25. An account with investments appeared on the private books of Miss E. H. Wendell, the account having been charged by her secretary with the cost of bonds and stocks purchased. (a) Included in the account are 20 shares of American Woolen which cost 62; on December 23, 1914, the stock was sold by her broker for 75½. What entry should be made? (b) Included in the account are 10 \$500 5 per cent. bonds of the

XYZ R. R. which were bought for $104\frac{1}{2}$; these bonds mature on March 1, 1915 and are paid off by the company. What entry should be made at maturity?

26. What distinction is made between the function of the accounts Maintenance of Residence and Household Expenses?

27. What entry should be made for semi-annual interest added to a Savings Bank Account?

28. What method would you advise for filing paid bills in household accounting? How long would you keep such bills?

29. How many hours a week do you think would be required to do the amount of work illustrated in the James Howell Exercise?

30. E. A. Merriam purchased a building lot in 1910 for \$2,000 and sold it five years later for \$2,750; during this time he paid taxes amounting to \$115 and incidental expenses, \$60. Allowing interest on the original investment at 5 per cent., what was his profit? What was his per cent. of profit?

31. If Mr. Merriam in the question above had deposited his money in a savings bank where the interest was compounded semi-annually at 2 per cent., how much money would he have had five years later?

32. Henry G. Stone bought a building lot on Burroughs Street costing \$2,200 on which two years later, he built a two-family house costing \$8,112. During the two years which elapsed before the house was completed, he paid taxes on the lot, \$50; city assessments for sewer and gas connections, \$75; incidental expenses, \$30. During the first year the two apartments were rented for \$40 and \$45 respectively. The maintenance expenses during this time were insurance, \$30; taxes, \$160.50; repairs, \$72.50; water rent, \$37.50; he takes into consideration 2 per cent. depreciation on the cost of the house.

Journalize the above and set up ledger accounts showing the cost of the property and net income for the first year; also the rate of income.

33. N. F. Silsbee purchased the Dewey building on January 1st for \$60,000, paying \$42,000 cash, giving a mortgage for the remainder, bearing interest at $5\frac{1}{2}$ per cent. February 1st, received rent from tenants, \$1,200; February 5, paid insurance for one year, \$200; March 1, received rents, \$1,160; paid janitor's salary for January and February, \$150; March 12, paid for putting a suite of offices in good condition for new tenant, \$35; March 15, paid water rent to June 30, \$200; March 31, received March rents, \$1,000; paid electric light bill for corridors, stairways, etc., for the three months, \$30; elevator service and repairs for the same time, \$200; coal used for three months, 80 tons at \$7.50 per ton; miscellaneous repairs, \$112.50; new directory of offices and tenants installed, \$100; construction of additional fire escapes \$400; rents due and unpaid, \$220; accrued taxes, \$375; unpaid wages, \$75; water rent prepaid, \$100; interest accrued on mortgage from January 1.

Journalize the above transactions covering the period from January 1 to March 31st. Set up ledger accounts, post, take a trial balance and prepare a statement showing net profit on the property and rate of return on Silsbee's investment.

The first entry to establish the accounts is a debit to Dewey building for \$60,000, a credit to Cash for \$42,000 and to Mortgage Payable for \$18,000.

34. How many shares N. Y., N. H. & H. can be bought for \$5,500 at $103\frac{1}{2}$ per cent.; brokerage $\frac{1}{8}$?

35. A broker bought for me 500 shares Baldwin Locomotive Company Preferred at $104\frac{1}{8}$ per cent.; usual brokerage. What should be the amount of my check to cover cost?

36. How many shares of Central Leather Common at $22\frac{3}{4}$; brokerage $\frac{1}{8}$ were sold to net the seller \$9,050?

37. If American Telephone and Telegraph pays a quarterly dividend of \$2 per share, how much must be invested in this stock at $127\frac{1}{4}$, usual brokerage, to yield an annual income of \$1,200?

38. United States Steel Preferred pays an annual dividend of 7 per cent. What will be my income from an investment of \$2,500 at $105\frac{1}{2}$, brokerage $\frac{1}{8}$ per cent.?

39. How many shares of Woolworth Common can I buy with \$5,580 at $92\frac{1}{8}$, usual brokerage?

40. Which is the better investment and how much, National Biscuit Preferred at 115, paying 7 per cent., or New York Central at $102\frac{1}{2}$, paying 6 per cent.?

41. I own a two-tenement house for which I paid \$7,500; the lower floor rents for \$27.50 per month; the upper floor for \$32. The property is assessed for \$6,800 on which I pay taxes of \$17.20 per thousand; insurance of $\frac{3}{4}$ per cent. on two-thirds of the assessed value; repairs averaging \$75 per year; water rent, \$25 and other expenses, \$100; what rate of interest does my investment yield?

42. The General Electric Company has capital stock outstanding, December 31, 1910 of \$65,181,200. Gross income for 1910 was \$71,478,558; the total expenses were \$42,938,975. After declaring a dividend of 8 per cent. what amount remained to be carried to surplus? What amount of dividend would be received by a man who owned 100 shares of this stock? What is his rate of income, if the stock cost him, 162?

43. The Diamond Match Company has capital stock outstanding of \$16,000,000. The net earnings for 1910 were \$1,850,482. After carrying \$750,000 to surplus, find the largest whole per cent. dividend the company could declare.

44. On January 5th a speculator deposited with his broker \$1,000 and instructed him to buy 175 shares Chesapeake and Ohio at 50. On January 17, the broker was instructed to sell the stock at $56\frac{1}{2}$. What was the customer's profit? Interest 6 per cent., brokerage $\frac{1}{8}$ per cent.

45. February 17, 1914, J. W. Wilson deposits \$500 with his brokers, instructing them to buy 50 shares of Utah Copper at 55. The stock drops to 46 and Wilson is requested to furnish more margin. February 24, Wilson deposits \$200 additional, but the stock continues to decline, and as he is unable to furnish any more margin, the brokers sell the stock at 42 on February 27. What was Wilson's loss; interest at 6 per cent.?

46. Mr. J. S. Snow carries a 15-year endowment policy for \$10,000 in the Hartford Life Insurance Company which matures June 30, 1918. The annual premiums of \$541.50 have been charged to a Life Insurance Premiums account. What entry should be made upon receipt of a check for \$10,000 in settlement of maturity? If this policy had been dropped after payment of the fifth premium, Mr. Snow receiving a check for \$1,812.60 for the cash surrender value, what entry should be made?

INCOME TAX LAWS

During recent years the Federal income tax law has become established as an important factor in our taxation system, and in addition many states have passed laws of their own imposing a tax upon individual incomes. There is little question that this form of taxation has come to stay and will probably become of even greater consequence as years go by.

These laws as yet are not established on any permanent basis but are constantly being revised and amended. Particularly as a result of war conditions, the rates of taxation are being increased from year to year and the laws as a whole are becoming more sweeping in their effect. The forms on which the returns are made out are also changing radically from year to year. This unsettled state of affairs is likely to continue for some years and it is therefore impossible to study the requirements of the law except as it is amended and revised from year to year and as new forms are issued.

The work of making out the taxation returns has fallen principally to bookkeepers and practicing accountants and it is work of such a technical character and of such great importance that any one having such returns to prepare should make a most careful study of all points of the law and of the blanks furnished by the government.

It is not worth while to include in the present discussion any of the requirements of the law for the current year or to illustrate the returns, because of the constant revisions and amendments spoken of above. Two problems are submitted, however, which will provide some practice in the interpretation of the laws of a particular year if it is desired to make a study of them from other sources. Several texts and manuals giving a complete digest and explanation of the law, and revised annually, are issued by prominent publishers of business books, and much literature pertaining to the laws is circulated each year by banking houses and by other agencies. It is also always possible to get a supply of forms for the current year for class room use, if a study of the law is to be made.

Problems in Calculating Federal and State Income Taxes

1. Mr. A. P. Richards has a position as treasurer of a small manufacturing company at a salary of \$3,500 per year. During his spare time, he does some outside accounting work and particularly during January, February and March, does a great deal of work in making out income tax returns for various persons. His earnings from this source during the current year have been \$2,850. He received in dividends during the year from stock, in various companies, \$124.50 and received interest on bonds, \$210; he has savings bank accounts which have earned interest during the year of \$68.40. He is married and has one child ten years old.

How much is his Federal income tax? His state income tax?

2. Robert T. Bancroft, President of the Globe Manufacturing Company, Boston, Mass., and residing at 52 Seaverns Avenue, Brookline, Mass., compiles the following summary of his personal income for the year ended December 31, 191-, preparatory to making a return of net income to the Collector of Internal Revenue. In addition to items of income, he includes certain other items taken from his personal accounts which he thinks may be necessary in making the return. Mr. Bancroft is married, his wife having an income of her own which is also given in the summary. He has two children under eighteen years of age. A joint return is to be made.

1 Mr. Bancroft's salary as president of the Globe Manufacturing Company, \$15,000. Yearly dividend on 501 shares of stock of the Globe Manufacturing Company, par value \$100, at 7 per cent.

2 Interest on \$10,000 Chicago Elevated Railroad Company, First Mortgage, 5 per cent. bonds. Interest payable March 1 and September 1. Bonds were purchased July 5, 1918.

3 Interest on \$5,000 Northwestern Power & Light Company 5 per cent. bonds bought in 1912; interest payable May 1 and November 1.

4 During 1914 he bought 500 shares Arizona Copper, par value \$25 per share at \$7.50, selling it later for \$16.25 (omit brokerage).

5 Interest on \$5,000 City of Bangor 4's, January 1 and July 1, bought in 1914.

6 Interest received at $5\frac{1}{2}$ per cent. on first mortgage of \$6,200 on property at 712 Huntington Avenue, payable June 30.

7 On October 1 an endowment policy of \$5,000 matured and the amount of the policy was paid to Mr. Bancroft. (On November 15, Mrs. Bancroft received from the executor of the estate of an aunt a cash bequest of \$2,500.) These two sums of money have been temporarily on deposit in the Hood Trust Company since they were received where they are drawing interest at 3 per cent.

Total interest for year on checking account in the Spring Park National Bank, \$96.32.

Rents received by Mrs. Bancroft from property owned by her on Causeway Street, \$1,600. Taxes paid on the property for year, \$216.80 and maintenance expenses of \$432.65. Estimated depreciation on the building, \$400.

Mr. Bancroft subscribed and paid \$1,000 toward a building fund for a Young Men's Christian Association in Pittsfield, his native town; he has also contributed \$2,000 to the American Red Cross.

Interest received on \$2,000 bonds of the Turners Falls Power Company, at $5\frac{1}{2}$ per cent.

Sold 200 American Telephone "rights" at \$6.25.

8 Mrs. Bancroft received from the Colonial Trust Company, executors of her father's estate, as income for the year from the property held in trust for her under the provisions of the will, \$3,612.75.

9 Royalty received during the year on a patented article manufactured by the Globe Manufacturing Company, \$7,612.80.

10 Sold 100 shares United States Steel at $38\frac{1}{2}$, which were bought earlier in the year at 45.

11 Dividend on 200 shares American Telephone Company stock at 8 per cent.

12 Gross income from a dairy farm in Wakefield, \$12,612.50; farm expenses including repairs, \$6,472.25; new barn constructed costing \$3,500.

Mr. Bancroft owns a business block on Fulton Street on which there is a \$40,000 mortgage at 5 per cent. During the year he received in rent, \$20,000. He paid taxes of \$804, and other expenses of \$3,012.60.

13 Mr. Bancroft owns his residence at 52 Seaverns Avenue, on which he paid taxes during the year of \$237.80. Tax paid on personal property, \$317.65. He paid an income tax of \$462.72 on June 15, of last year.

In your capacity as bookkeeper for the Globe Manufacturing Company, Mr. Bancroft asks you to make out his tax returns, calculating the amount of his tax and supplies you with the necessary forms.

CHAPTER XIII

ACCOUNTS OF SMALL SHOPS

The accounts of small retail establishments such as confectionery stores, restaurants, tea rooms, millinery and dressmaking shops, are often very much neglected. They usually are businesses which are under the entire management and control of one person whose time is so completely taken up with the seemingly more important duties of conducting the business that little attention is paid to the work of running the office, keeping the books, and performing the other routine clerical work.

There would seem to be particularly good reasons, however, in such businesses for giving proper attention to the office routine and to sound methods of business practice. The margin of profit is often small; the chance of loss of both merchandise and cash is great; the buying must be closely watched; if sales are made on account, collections must be followed up; and inasmuch as the proprietor often has his entire capital at stake, he should be able to tell exactly how the business stands at frequent intervals.

Such a person raises himself in the esteem of other business men and of the banks if he gives proper attention to routine matters, and if he knows at all times the financial condition of the business and approximately the amount of money that is being made. These things are largely accomplished by sound bookkeeping methods, and if the proprietor himself is not able or has not the time to give to such work a capable person should be employed to take charge of it.

Every business, however small, has its own peculiarities which will naturally modify the methods of bookkeeping and of office routine. It is not possible to consider every type of business mentioned, but it is hoped that certain general principles may be presented in this exercise and certain suggestions given regarding the office work which would prove helpful under entirely different conditions.

ROSE TREE INN

The Rose Tree Inn, Richmond, N. Y., has been conducted as a restaurant and tea room for several years. In addition to the patronage which it enjoys from the students of Franklin College which is located

in Richmond, it is a popular place among the ladies of Richmond for afternoon teas; a specialty is made of putting up lunches for picnics, automobile parties, etc., and catering is done for weddings, receptions, class banquets and clubs. The rooms are open to men and a number of business men take their lunches there.

The tea room has been conducted for the past four years by Mrs. Frances Masters as a means of meeting a part of the expenses of her daughter's college course. The daughter will graduate in June, and as Mrs. Masters desires to return to her former home, the business is for sale. You have had some experience in such work, and as you know of the excellent patronage which Mrs. Masters has built up, you have negotiated for its purchase.

An inventory is taken of the equipment and supplies which shows the following: 15 tables, valued at \$100; 50 chairs, \$150; kitchen range, \$65; gas stove, \$30; kitchen utensils, \$55; silverware, \$80; china and glassware, \$100; linen, \$70; provisions on hand, \$50; cash register, office desk and chair, safe, filing cabinets, etc., \$205. There are no outstanding bills except a balance due from the Class of 19—, Franklin College, for their class banquet, \$40; Mary E. Birney, 110 Elm Street, owes an account of \$6.88, and Mrs. Nelson Pickett, 78 Franklin Street, an account of \$3.12; these bills are taken over by you.

The price agreed upon for the business, including a valuation of \$2,345 placed upon the good will, is \$3,300, of which \$2,900 is to be paid in cash on the day the bill of sale is executed. Four notes for \$100 each are to be given for the remainder of the purchase price, running sixty days, four months, six months, and one year respectively, and bearing 5 per cent. interest. As you have only \$2,400 in cash, you arrange with Charles N. Bassett to take a chattel mortgage for \$500 on your furniture and equipment, in order that you may make the cash payment agreed upon. The mortgage is payable on demand and bears 6 per cent. interest, payable semi-annually in advance. Mrs. Masters holds a five-year lease on the quarters occupied by the tea room which will not expire for two years, at a yearly rental of \$500, payable monthly in advance. The lease is assigned to you.

The kitchen and dining room help, consisting of a cook, kitchen girl, three waitresses and a cashier, will be retained and will be paid the following wages: cook, \$10 per week; the kitchen girl, \$4; waitresses, \$5; cashier, who works only from twelve to six, \$3.50. You will take personal charge of the business and will do the buying and will keep the accounts.

You assume charge April 1, 19—, on which date the bill of sale is

executed and the terms of the sale complied with. The books are to be opened as of that date.

BOOKKEEPING PROCEDURE

It is desirable that the books of account show an accurate record of cash receipts and disbursements, of profits and losses and of assets and liabilities. You have some knowledge of bookkeeping, but you call in a more experienced person to advise you about a system which will be simple and practical, and about the classification of accounts, and to give you suggestions regarding the office work.

After reviewing the scope of the business, the following classification of general ledger accounts is decided upon:

ASSETS:

- Cash
- Accounts Receivable (separate account with each)
- Dining-room Furniture
- Kitchen Furniture and Equipment
- Silverware
- China and Glassware
- Linen
- Office Equipment
- Good Will

LIABILITIES AND CAPITAL:

- Notes Payable
- Chattel Mortgage Payable
- Accounts Payable (separate account with each)
- Consignments
- A Capital Account with the owner
- A Drawing Account with the owner

EXPENSE:

- Provisions
- Wages
- Candy Purchases
- Cash Variations
- Interest on Notes Payable
- General Expense
- Salary of Proprietor

INCOME:

- Sales
- Candy Sales
- Catering
- Commissions

CLOSING ACCOUNT:

- Profit and Loss

The rules for debiting and crediting certain accounts peculiar to this exercise will now be given. The other accounts have occurred in former exercises and need not be defined here.

Dining-room Furniture, Kitchen Furniture and Equipment, Silverware, China and Glassware, Linen, and Office Equipment are all debited with the cost of additional equipment purchased. Repairs and renewals should be charged to General Expense.

GOOD WILL

<i>Debit:</i> With the cost of good will acquired.	<i>Credit:</i>
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Sometimes it is the policy of the management to write off good will periodically, by charging Profit and Loss account and crediting Good Will.

Good Will is an intangible asset which represents a valuation placed upon the patronage and reputation which a business enjoys, upon copyrights or trademarks, favorable business connections, advantageous location, unexpired lease on favorable terms, etc. While intangible and difficult to value, it is an asset which has unquestioned legal standing and receives recognition wherever a business is bought or sold.

CHATTEL MORTGAGE PAYABLE

<i>Debit:</i> With payments in full or on account of mortgages issued.	<i>Credit:</i> With the face value of mortgages issued.
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The balance of the account is a liability representing the amount of the mortgage remaining unpaid.

DRAWING ACCOUNT

<i>Debit:</i> With all amounts withdrawn for personal use.	<i>Credit:</i> With monthly salary, with money placed in the business temporarily, and with net income.
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The balance, if a credit, represents the amount remaining to be drawn against; if a debit, the amount of the overdraft. The balance should be shown in the balance sheet under Net Worth as an addition to or deduction from the capital account.

PROVISIONS

<i>Debit:</i> With the cost of all provisions purchased, including meats, vegetables, fruit, eggs, milk, cream, etc.	<i>Credit:</i>
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WAGES

Debit:

With the weekly wages of kitchen and dining-room help.

Credit:

GENERAL EXPENSE

Debit:

With all expense items of a general nature, including insurance, office supplies and replacements, light, heat, ice, telephone, etc.

Credit:

CATERING

Debit:

Credit:

With gross income from catering.

This account is kept to show the catering done and should not be debited with expenses incurred in catering, such as express, extra waiter, etc. Such items should be charged to General Expense.

CONSIGNMENTS

Debit:

With all sales which are reported to the individual consignors at the time of rendering an Account Sales. (This debit comes monthly from the Account Sales Journal.)

Credit:

With sales of consignors' goods.

The balance is a Credit and represents sales of consignors goods which have not yet been reported to the consignor, and which the business is liable for; hence the balance represents a liability

COMMISSIONS

Debit:

Credit:

With commissions earned on the sale of consignors goods. (This Credit comes monthly from the Account Sales Journal.)

This account represents a profit.

Books of Account.—The books of account which will be needed are a Journal, Account Sales Journal, Cash Book and Ledger.

The Journal is of standard form and ruling and entries are recorded therein as in past exercises.

The Account Sales Journal will be described hereafter.

The Cash Book contains certain special columns for the more frequent sources of income and more common disbursements; these special columns save much time in posting, economize space in the ledger, and aid in the classification of the accounts.

The Ledger is of standard form and ruling and is used as in past exercises.

Business Practice.—The work of this set will consist not only of recording the transactions but of a limited amount of business practice. A bank account will be opened, deposit slips made out, checks issued in payment of most bills, business papers arising in the work studied and some practice given in making out certain ones which are called for. Cash will be proved frequently.

Opening Entries.—In order that the books may be properly started, opening entries are made in the Journal to record the assets acquired from Mrs. Masters, the liabilities incurred as a result of the purchase, and the investment made.

On page one of the journal write first a careful account of the terms and conditions of purchase, describing the terms of the notes given to Mrs. Masters, and the chattel mortgage placed upon the equipments, the assignment of the lease, and any other matters to which reference might be made in future years. The page should be headed, Richmond, N. Y., April 1, 19—.

Then will come the opening entries which are made in the following form: Students are required to supply the missing figures:

Class of 19—, Franklin College.....	\$40.00
Mary E. Birney.....	6.88
Mrs. Nelson Pickett.....	3.12
Dining Room Furniture.....	** **
Kitchen Furniture and Equipment.....	** **
Silverware.....	80.00
China and Glassware.....	100.00
Linen.....	70.00
Office Equipment.....	205.00
Good Will.....	2,345.00
Provisions.....	50.00
Student's Capital Account.....	\$**

To bring onto the books the assets acquired from Mrs. Masters.

Mrs. Francis Weston

Student's Capital Account.....	\$900.00
Notes Payable.....	\$100.00
Notes Payable.....	100.00
Notes Payable.....	100.00
Notes Payable.....	100.00
Chattel Mortgage Payable.....	500.00

To bring onto the books the liabilities incurred in purchasing the business.

Opening Ledger Accounts.—Accounts should now be opened with all the general ledger accounts in the classified list on page 105. Instead of an account being opened for Accounts Receivable, open separate accounts for Class of 19—, Franklin College, Mary E. Birney, and Mrs. Nelson Pickett, and immediately following, leave two blank pages for later accounts of the same class. Following Chattel Mortgage Payable, leave two blank pages for accounts with creditors which will be opened later. Allow one-half page to each account. Index all accounts.

After the above has been done, post the opening entries. The ledger will then contain open accounts with assets, liabilities and investment. Your capital account should show a credit balance of \$2,400 which is the amount of money which you have put into the business.

Business Practice.—A chattel mortgage is a mortgage taken on personal property as security for a debt. The creditor or the one who takes the mortgage is known as the mortgagee; the debtor or the one who borrows the money, the mortgagor.

Study the terms of the chattel mortgage blank illustrated and determine how it would be filled out in the present case (Form 11).

Write the four notes given to Mrs. Masters, making them payable at the Merchants Bank; give careful attention to accuracy in form, wording, and arrangement. Submit them for inspection and approval.

APRIL TRANSACTIONS

1st. You provide the cashier with \$10.00 in change. Credit your drawing account, and enter the amount in the Sundry Credits column, making proper explanation.

Pay Mr. Bassett six months' interest at 6% on the chattel mortgage note. Debit Interest on Notes Payable, entering the amount in the Sundry Debits column.

Sales for the day, \$47.50. Credit Sales and enter the amount in the Sales Credit column. Place a check mark (✓) in the folio column against this entry and all other entries for sales, to indicate that the individual

Know all men by these presents

that _____

in consideration of

paid by _____

the receipt whereof is hereby acknowledged, do hereby grant, sell, transfer, and deliver unto the said _____ the following goods and chattels, namely:

To have and to hold all and singular the said goods and chattels to the said

..end

executors, administrators and assigns, to their use and behoof forever.

And..... hereby covenant with the grantee that..... the lawful owner of the said goods and chattels; that they are free from all incumbrances.

that..... have good right to sell the same as aforesaid; and that..... will warrant and defend the same against the lawful claims and demands of all persons.

Provided nevertheless that if....., or..... executors, administrators, or assigns, shall pay unto the grantee, or..... executors, administrators, or assigns, the sum of

in..... from this date, with interest as stated in..... note of even date signed by....., and until such payment shall keep the said goods and chattels insured against fire in a sum not less than.....

dollars for the benefit of the grantee and..... executors, administrators, and assigns, in such form and in such Insurance Companies as they shall approve; shall not waste or destroy the said goods and chattels, nor suffer them or any part thereof to be attached on meane process and shall not, except with the consent in writing of the grantee or..... representatives, attempt to sell or to remove from..... the same or any part thereof,—then this deed, as also the aforesaid note, shall be void.

But upon any default in the performance or observance of the foregoing condition, the grantee or..... executors, administrators, or assigns, may sell the said goods and chattels at public auction, first giving..... days notice in writing of the time and place of sale to..... or..... representatives, or publishing such notice once a week for three successive weeks in some one newspaper published in said..... And out of the money arising from such sale the grantee; or..... representatives shall be entitled to retain all sums then secured by this mortgage, whether then or thereafter payable, including all costs, charges and expenses incurred or sustained by..... them in relation to the said property, or to discharge any claims or liens of third persons affecting the same; rendering the surplus, if any, to..... or..... executors, administrators, or assigns.

And it is agreed that the grantee, or..... executors, administrators, or assigns, or any person or persons in their behalf, may purchase at any sale made as aforesaid; and that until default in the performance or observance of the condition of this deed..... and..... executors, administrators, and assigns, may retain possession of the above mortgaged property and may use and enjoy the same, but after such default, the grantee or those claiming under..... may take immediate possession of said property; and for that purpose may, so far as I can give authority therefor, enter upon any premises on which said property or any part thereof may be situated, and remove the same therefrom.

In witness whereof the said
 herunto set hand and seal this
 day of in the year one thousand nine hundred and

Signed, sealed and delivered
 in presence of

.....

 }

..... 19 h. m. M. Received and
 entered in Records of Mortgages of Personal Property in the Clerk's Office of the of
 book page

..... Clerk.

FORM 11.—CHATTEL MORTGAGE (CONTINUED).

items are not to be posted, the total of the special column being posted at the end of the month.

Extend the total receipts for the day (\$57.50) in the Total Daily Receipts column on a line with the last item; also extend the total payments \$15, in the Total Daily Payments column. This should be done daily without further instructions.

Business Practice.—The student is not supplied with imitation currency and with incoming checks in this exercise, as in many business practice sets; in order, therefore, that practice may be given in proving cash from time to time a substitute for the cash drawer or cash register must be provided.

For this purpose a Cash Sheet may be used on which a memorandum is made of cash received both currency and checks, and of currency paid out or deposited. No entry would be made on this sheet for checks issued. The balance shown by this sheet should equal the amount of cash which should be on hand in the cash drawer or register at any time. A plain sheet of journal or ledger paper may be ruled and used for this purpose. The following illustrates the use of such a sheet with the first few items of receipts and payments recorded thereon.

DATE		EXPLANATION	RECEIPTS		PAYMENTS OR DEPOSITS	BALANCE	
Apr	1	Change for Cashier	10				
		Interest on Mortgage			15		
		Sales	47	50		48	50
	2	Sales	40	35		88	85
	3	Sales	40	80		128	65
	4	Sales	39	15			
		Deposit			150	12	80
	5	Sales	44	73		57	53
	6	Sales	47	35			
		Shortage			30		
		Wages			32	50	
		Withdrew for Personal use			20	58	53

FORM 12.—CASH SHEET.

2d. Sales \$40.35.

3d. Sales \$40.80.

4th. Sales \$39.15.

Business Practice.—Open an account in the name of Rose Tree Inn, in the Merchants Bank, making a first deposit of \$150 in currency. Make out a deposit ticket, enter the amount of the deposit in the pass book and on the stub of the check book.

Checks are to be signed, "Rose Tree Inn, by _____." Deposits will be made as directed, a sufficient amount being withheld at the time of making the deposit to provide change and to pay wages and petty items. All payments should be made by check except those which must for the sake of necessity or convenience, be made in currency.

5th. Sales \$44.73.

Pay Barrett and O'Brien by check, rent for April, \$41.67.

Fill out the stub of the check properly, draw the check with care and remove it from the check book, and place it in the Cash Payments Envelope. Make entry in Cash Book charging General Expense, and enter the amount in the General Expense Dr. column and place checkmark in the folio column.

Pay Oliver B. Bradley \$5 by check for his assistance in advising you about the bookkeeping system.

6th. Sales \$47.85; in proving cash with the waitresses' sales slips, the cashier finds that she is 30c. "short." Enter this shortage on the credit side of the cash book as a debit to Cash Variations placing the

amount in the Sundry Debits column; also show as a deduction on the Cash Sheet.

Pay wages of the employees for the week in cash \$32.50.

Withdraw \$20 in cash for personal use.

8th. Sales \$28.20.

Pay bill of Bridgman & Lyman by check for blank books and office supplies, \$4.65.

9th. Sales \$40.81.

10th. Deposit \$120. Sales \$47.65.

Make a proof of cash in the following form and submit to your instructor. The figures show totals from April 1st to April 10th.

DAILY PROOF OF CASH

APRIL 10, 19—

RECEIPTS:

Sales.....	\$**	
Sundry.....	**	\$**

PAYMENTS:

General Expense.....	\$**	
Provisions.....	**	
Sundry.....	**	\$**

BALANCE:

In Merchants Bank.....	\$**	
On Hand (Cash Sheet).....	**	\$**

11th. Sales \$43.00.

12th. Sales \$31.45.

13th. Deposit all but \$10. (Amount of deposit determined from cash sheet.) Sales \$48.75.

Pay wages for the week.

Withdraw \$20 for personal use.

15th. Sales \$31.81.

16th. Sales \$32.63; cash "over" 15c.

17th. Deposit \$65. Sales \$37.50.

Mary E. Birney pays her account in full by check.

18th. Sales \$47.90.

Pay for a half-page advertisement in the Franklin College Monthly by check, \$5.

19th. Sales \$47.15.

Receive a check for \$20 from June E. Stone, Rochester, N. Y., treasurer of the class of 19—, to apply on banquet account.

20th. Deposit all but \$25 (see note under the 13th).

Sales \$39.95.

Pay wages for week; withdraw for personal use, \$18.

Prepare Proof of Cash.

22d. Sales \$23.60.

23d. Sales \$36.95; cash "short" \$1.

24th. Deposit all but \$10.

Sales \$42.60.

Cater for a wedding, the bill for \$40 to be sent to Mr. J. H. Byers (Journal entry); pay extra waiters who were engaged for the occasion, \$6; expressman, \$2. (Charge General Expense for both wages and express.)

25th. Sales \$37.55.

✓ Send bill to Mr. Byers, 46 State Street.

26th. Sales \$46.57.

27th. Deposit \$100.

Sales \$29.

Pay wages for week; withdraw \$20.

29th. Sales \$39.85.

30th. Deposit \$35.37.

Sales \$46.80.

Receive bank statement with canceled checks enclosed; you find from the statement that the bank charged you 10c. for collecting the check deposited on the 20th. Make entry and deduct the amount on the stub of your check book.

Previous to closing the Cash Book for April, the following April bills are received and paid:

Public Market Co., meats and vegetables, \$242.87; Clapp & Clapp, meats and vegetables \$181.19; John A. Ross & Co., groceries, \$98.65; R. J. McQuestion, milk and cream, \$65.80; City Ice Co., \$6; Richmond Electric Lighting Co., 97c.; Richmond Gas Co., \$6.15; W. H. Riley & Sons, repairing kitchen range and fixing plumbing, \$4.60; National Biscuit Co., \$14.80; Ames Butter & Eggs Co., \$78.33; Richmond Empire Laundry, \$15; Central Telephone and Telegraph Co., \$3; withdraw \$15; buy postage stamps, \$2.

You have decided to allow yourself a salary of \$100 a month as manager of the tea room, against which you will draw money as needed to meet personal expenses. Make an entry in the Journal, crediting your Drawing account with your April salary, and debiting Salary of Proprietor.

Prepare Proof of Cash.

Balance the cash book, giving attention to all details of rulings, footings, etc.

Do all posting to date. You are reminded that only the footings of the Sales column on the debit side, and of the General Expense and Provisions columns on the credit side are posted; the individual items in the Sundry Credits and Debits columns are posted; the footings of the Total Daily Receipts and Total Daily Payments columns are posted to the proper sides of the Cash account; do any necessary posting from the journal.

Take a trial balance, and submit for approval, after which it is copied in your blank book.

CONSIGNMENTS

It is frequently the practice among small shops, tea rooms, women's exchanges, etc., to sell merchandise of different kinds on commission. Goods are consigned to such dealers on memorandum and if all or a part of the goods are sold, a certain commission is allowed for making the sale. The one who ships the goods under such an arrangement is called the consignor; the one to whom they are shipped and who undertakes to sell them, the consignee. The goods remain the property of the consignor, any loss in shipment or while in the hands of the consignee, unless due to gross negligence, falling upon the consignor, and they may be withdrawn from sale by him at any time.

Inasmuch as no title is obtained to the goods, no entry is made by the consignee upon receipt of the goods, other than a memorandum of from whom received, date received, and quantity and kind of goods. In this work, such a memorandum is made upon an Account Sales blank.

An *Account Sales* is a statement rendered by the consignee to the consignor at stated intervals or after all the goods in his hands have been sold, showing sales made, express or other charges incurred, commission, and the net proceeds due to the consignor.

In this work, the Account Sales are made out in duplicate, the original going to the consignor together with the check issued for the net proceeds, the duplicate being kept as our record of the transaction.

You have arranged with Page & Shaw, 128 West St., Albany, New York, to sell their candies on commission. They are to ship you each week as many pounds of their chocolates and bonbons as you think you can sell. You are to receive a commission of 20 per cent. on what you sell with the understanding that you are to return to them at the end of each week what you have been unable to sell, in order that a fresh stock may be kept on hand all the time; they are to pay the express both ways.

You also arrange with the Needle Arts Society, 360 Elm St., Rochester, to handle their goods on a commission of 25 per cent.

MAY TRANSACTIONS

Transfer the balance of cash on hand April 30 to the next page under date of May 1, entering it in the Total Daily Receipts column; draw a line beneath it so that it will not be added with the receipts for May and thus posted twice.

1st. Sales \$52.25.

Receive on consignment from Page & Shaw 40 pounds candy in pound and half-pound boxes to be sold at \$1 a pound. Fill out the upper part of an Account Sales blank, as a memorandum of the receipt of the candy but make no other entry at this time. For convenience, and in order to reduce clerical work, only total weekly sales of this candy will be reported.

2d. Deposit \$80. Sales \$47.50.

3d. Sales \$27.78.

4th. Deposit \$60. Sales \$52.51.

Pay wages for the week.

6th. Sales of Page & Shaw candies for the week ending the 4th amounted to \$36. Make an entry in the cash book crediting Consignments and enter the amount in the Sundry Credits column. Complete the Account Sales and make proper entry in the Account Sales Journal. The total sales are entered in the Consignments Dr. column, the Commission \$7.20 (20 per cent. of \$36), in the Commission Cr. column and the net proceeds, \$28.80, in the Accounts with Consignors column; from the latter column, the proceeds will be credited to a ledger account with Page & Shaw and folioed.

Draw a check for the net proceeds and enter it as a debit to Page & Shaw, extending the amount in the Sundry Debits column; also note payment in the Account Sales Journal, under "Net Proceeds Remitted."

Received a consignment of needle work from the Needle Arts Society. Make a record of the receipt of same on an Account Sales blank.

Receive from Page & Shaw a shipment of 40 pounds of candy.
Sales \$32.15.

7th. Sales \$42.50.

8th. Deposit all cash but \$10. Sales \$37.85.

Pay rent for the month.

9th. Sales \$39.25; cash "over" 50c.

10th. Sales \$52.50.

Place \$600 insurance on stock and equipment through the office of Oliver Walker & Son, paying premium by check, \$5.

Make a proof of cash.

11th. Deposit all cash but \$20. Sales \$36.65.

Pay wages for the week; withdraw for your personal use \$15.

13th. You sold during the week the entire shipment of 40 pounds of Page & Shaw candy. Make entry therefor in the cash book. Complete the Account Sales, make entry in the Account Sales Journal, draw a check for the net proceeds and enter it in the cash book. The procedure is the same as on the 6th.

Receive shipment of 50 pounds.

Sales \$28.20.

14th. Sales \$39.40.

15th. Deposit all but \$10. Sales \$35.56.

As you have an increasing number of calls for assorted candies and confectionery of all kinds, you have decided to add a selected line of such goods and have placed an order with the United Candy Company, Boston, Mass. Make a memorandum in the journal of the placing of the order.

16th. Sales \$42.47.

17th. Sales \$39.05.

Cater for a reception given by Mrs. H. C. Day, 10 Franklin St.; it is agreed with her that a bill for \$35 will be rendered June 1 (Journal entry); pay extra help engaged for the occasion \$6; pay expressman \$2; both paid in currency.

Send Mrs. Nelson Pickett a statement of account.

The candy ordered from the United Candy Company received today with an invoice for \$31, which you pay by check. Debit Candy Purchases.

You buy a show case from C. N. Fitts & Co., in which to display the candy; a bill for the same is received for \$30 and you pay it by check. As the show case is placed in the dining room, debit Dining-room Furniture.

18th. Deposit all cash except \$10. Sales \$59.98; candy sales, \$7.20. Credit Candy Sales, entering the amount in Candy Sales column and check it.

Lucy Laughlin, Raven House, gives a luncheon to eleven of her college friends, the bill amounting to \$12; a bill is rendered to her which she arranges to pay June 1. (Journal entry.)

Pay wages for week; withdraw \$25.

20th. Sales \$32.27; candy sales, \$4.25.

Sales of Page & Shaw for the week \$38. Render an Account Sales, and send a check for the net proceeds, making all entries as heretofore.

Receive on consignment 40 pounds of candy. Prove Cash.

21st. Sales \$32.25; candy sales \$3.75.

22d. Deposit all cash but \$20.

Sales \$33.50; candy sales \$8.30.

23d. Sales \$27.58; candy sales \$6.70.

24th. Sales \$30.87; candy sales 80c.; cash "short" 60c.

25th. Deposit all cash but \$20.

Sales \$35.70; candy sales \$5.60.

Pay wages for week; withdraw \$10.

Mrs. H. G. Bigelow has left with you on Consignment some hand-painted china (not itemized) to be sold on a commission of 25 per cent.

(If it is necessary to continue entries in the cash book on the next page before the end of the month, your instructor will give any assistance that you may need in forwarding footings.)

27th. Sales of Page & Shaw candy for the week \$35. Make entry in cash book, render account sales, send check for net proceeds, and make all necessary entries therefor.

Sales of merchandise of the Needle Arts Society amount to \$64.20 to date. Make proper entries and proceed as above. There still remain on hand goods belonging to this consignment.

Receive a consignment of 50 pounds from Page & Shaw.

Sales \$32.80; candy sales \$1.50.

28th. Sales \$41.90; candy sales \$4.95.

Receive a check from J. H. Byers in payment of bill rendered April 25th, \$40.

29th. Deposit all cash but \$20.

Sales \$35.95; candy sales \$3.60; cash "over" 25c.

30th. Tea room closed.

31st. Sales \$31.56; candy sales \$5.40.

Pay sixty-day note dated April 1, due today, with interest.

Pay wages for the week; withdraw \$20.

Sales of Page & Shaw to date, \$20; Needle Arts Society, \$12.50. (Make entry for these sales but do not render Account Sales.)

Sales of Mrs. Bigelow's china amount to date to \$20. Render Account Sales and enclose check for amount due her.

Deposit \$75.

Pay the following May bills: Clapp & Clapp, \$205.71; John A. Ross & Co., \$92.59; R. J. McQuestion, \$75; Richmond Empire Laundry, \$15; Central Telephone & Telegraph Co., \$3; Richmond Electric Lighting

Co., 80c.; United Candy Co., \$16.50; Ames Butter & Eggs Co., \$53.55; Public Market Co., \$188.72; City Ice Co., \$3; Richmond Gas Co., \$7.52; J. E. Lambie & Co., table linen, to replace linen worn out, \$25; Richmond Cutlery Co., replating 4 dozen knives and forks, \$10; Daily Richmond Gazette, advertising, \$5.

Credit yourself with your salary allowance for May.

Make a proof of cash.

Balance the cash book and do all posting for May.

Remember to post from the journal and the Account Sales journal as well as from the cash book.

In posting from the account sales journal, open accounts in the ledger for the three consignors following Chattel Mortgage Payable and credit each with the net proceeds of each account sales rendered. Foot and rule the book and post footings as follows: Debit Consignments account with the total of the Consignments column and credit Commissions account with the total of the Commissions column. As a proof of the additions, the footings of the Commissions and Accounts with Consignors columns should equal the footing of the Consignments column.

Take a trial balance and submit for inspection and approval.

CLOSING THE BOOKS

Statements are now to be prepared and the books closed; the work should be done in the following order:

1. Profit and Loss Statement April 1 to May 31. An inventory is taken showing provisions and supplies on hand, \$22.50; candy, \$15.

The following model illustrates the form and arrangement of the statement. The general expense account is analyzed, and the more important items shown separately, such as rent, laundry, fuel and light, telephone, insurance, and miscellaneous.

PROFIT AND LOSS STATEMENT

APRIL 1—MAY 31, 19—

Sales.....	\$	**		
Catering.....		**	\$	**
Deduct:				
Cost of Provisions Used:				
Provision Purchases.....	\$	**		
Less:				
Inventory May 31, 19—.....		**	**	
Gross Profit from Sales.....			\$	**

Candy Sales.....	\$ **		
Deduct:			
Cost of Candy Sold:			
Candy Purchases.....	\$ **		
Less:			
Inventory, May 31, 19—.....	**	**	
Gross Profit on Candy Sales.....			**
Commissions.....			**
Total Profit.....			\$ **
Deduct:			
Rent.....	\$ **		
Laundry.....	**		
Fuel and Light.....	**		
Telephone.....	**		
Insurance.....	**		
Miscellaneous.....	**		
Wages.....	**		
Salary of Proprietor.....	**		
Interest on Notes Payable.....	**		
Cash Variations.....	**	**	
Net Profit.....			**

2. Balance Sheet, May, 31, 19—.

3. Closing entries, after the following models:

CLOSING ENTRIES MAY 31, 19—

Sales.....	\$ **		
Candy Sales.....	**		
Catering.....	**		
Commissions.....	**		
Profit and Loss.....		\$ **	
To close into the Profit and Loss account all accounts which show a profit or income.			
Profit and Loss.....	\$ **		
Provisions (cost less inventory).....		\$ **	
Wages.....		**	
Candy Purchased (cost less inventory).....		**	
Cash Variations.....		**	
Interest on Notes Payable.....		**	
Salary of Proprietor.....		**	
General Expense.....		**	

To close into the Profit and Loss account, all accounts which show a loss or expense.

Profit and Loss.....	\$ **		
Students' Drawing Account.....		\$ **	

To close into the proprietor's drawing account the net profit for the two months ending May 31.

Post the closing entries and balance and rule general ledger accounts.

4. The bank statement is received June 1. The envelope system is used by the Merchants Bank. The following checks are not returned: C. N. Fitts & Co. on the 20th; Page & Shaw on the 27th; Needle Arts Society on the 27th; Mrs. Masters' check and all other checks issued on the 31st.

Prepare a reconciliation of bank statement.

CHAPTER XIV

ACCOUNTS OF SCHOOL AND COLLEGE LUNCH ROOMS

Any bookkeeping necessary in connection with accounts of this character is quite limited. Rather than an extensive knowledge of methods of keeping books, the manager in charge of such a lunch room should have the ability to work out some systematic plan for attending to the routine office duties that are associated with her position.

These duties consist of verifying sales slips or daily bills as to prices and extensions and filing them for comparison with the statement received at the end of the month; obtaining and filing credit memoranda and seeing that they are properly entered on the monthly statement; approving bills or statements and sending them to the proper disbursing officer for payment; filing sales slips and statements; handling a petty cash fund; keeping trace of lunch tickets; checking the work of the cashier to see that all sales are properly accounted for and that unsold tickets are turned in; caring for stock and taking inventory at stated intervals.

A single entry cash book would be advisable in most cases, showing on one side daily sales, and on the other, remittances to the proper officer of the school or college; the difference between receipts from sales and remittances should at all times equal the cash on hand.

A purchase register might well be kept showing a record of all provisions and supplies purchased, including date, name of dealer, terms and amount of bill; a separate page of this book could be allowed for each dealer or the purchases may be classified by the nature of the supplies, separate columns being provided for meats, vegetables, butter and eggs, milk and cream, fruit, ice, etc.

A simple summary of daily receipts would aid materially in showing the comparative daily, weekly and monthly sales.

The profits of a lunch room may be arrived at monthly or quarterly with a fair degree of accuracy in the following manner:

The inventory of stock on hand as of a certain date plus the cash on hand shows the current assets of the lunch room; the difference between this total and the same total as of the preceding month or quarter, gives the approximate net profit or loss for the month, assuming that all bills for expenses and supplies have been paid.

For Example.—On April 30, all bills are paid and there is on hand provisions and supplies valued at \$60; there is on hand and in possession

of the official of the school to whom the receipts are remitted, \$360, making total assets of \$420. On March 31, there were provisions on hand of \$45 and cash of \$325, making total assets of \$370. This amount deducted from \$420, gives a profit for April of \$50.

Attention must be called to the great care which should always be exercised in taking inventory, as the results arrived at are dependent to a great extent upon the accuracy of such figures.

DORMITORY ACCOUNTS

The bookkeeping involved in the purchase of equipment, supplies, provisions, and fuel, the paying of all expense bills, and the receipts from students, for board and room rent, is almost always done in the general accounting office of the college, known as the treasurer's office, or the bursar's office. There the students go to pay their dormitory bills; and all bills incurred in the conduct of the dormitory, after having been approved, are paid by the treasurer or the bursar.

When this is done, the matron has practically no bookkeeping to do, except perhaps the handling of a Petty Cash Fund and the accounting to the college periodically, or at the end of the college year, for all amounts expended from this fund. It is usually necessary that the matron have such a fund available from which to make small purchases of provisions from time to time of local grocers in case something has been omitted from the regular order, the purchase of fruit from wagons if the prices are obviously low, the payment for petty repairs, express, the purchase of an occasional kitchen utensil or anything of like nature.

As a rule, the matron would be required to secure a voucher as evidence of all payments made, and to render periodically an itemized list of the expenditures from the fund to the college office. Such vouchers would be blank forms filled out by the matron, and signed by the person receiving the money.

At any time, the total payments as shown by the vouchers on file deducted from the money received at the time the fund was created, should equal the balance of money on hand.

A warning should be inserted here against combining the petty cash with one's own personal cash. The Petty Cash Fund should always be kept separate from all other money and should never be used for any purpose except that for which it was intended.

The matron would make all collections from transients, keeping an account of the dates such money was received, from whom received, and the amount. Such money would be turned over to the college office weekly or monthly.

It is advisable for the college office to submit to the matron for approval, monthly bills for provisions and supplies and for new equipment purchased, before such bills are paid. It is only in this way that the office can be sure that the bills rendered are correct, that the provisions and supplies have actually been purchased and used, that the equipment ordered has been delivered, or that the services noted on the bill have actually been performed. It is essential, that the buying be looked after carefully and all deliveries checked with the orders. In case grocers and provision houses render a sales slip with the goods delivered, the slip should be checked carefully with the goods received and the slips filed in chronological order either on a spindle or in a clip large enough to hold all the slips for one month. When the monthly bill is submitted for approval by the college office, it should be checked with the sales slips and if they are in agreement, the slips may be destroyed.

If one becomes matron or superintendent of a fraternity house or of a club or private boarding house, the account keeping becomes more complicated and would frequently call for a complete system of book-keeping. In such cases, the superintendent or matron becomes the business manager of the house or club and is expected to so manage affairs that a reasonable profit may be shown to the fraternity or to the owner of the club or boarding house. While her success would depend largely upon her business ability, she would be aided very considerably by a simple system of keeping the accounts which would show a complete record of all cash receipts and disbursements and of all income and expenses. This could not well be accomplished unless the books were kept by double entry with accounts with all property and equipment owned and with income and expenses. A Cash Book, Journal, and Ledger would be the only books needed under ordinary circumstances, the Cash Book being of the most importance.

A bank account should be opened and all money received deposited except a small amount withheld from which to make petty payments. All bills which can be so paid with convenience should be paid by check. Receipted bills should be filed alphabetically in a box file, all bills from any one dealer being placed together in a folder. Canceled checks should be carefully preserved, preferably by filing the bank statement in envelope form with checks enclosed, just as it was rendered by the bank. Before filing each month's statement, it is essential that the statement be compared with the check book to see that the two agree, allowance being made for outstanding checks.

The importance of keeping the accounts up to date cannot be over-

emphasized. No system of bookkeeping will run of its own accord. The accounts must be kept. It is a mistake to regard this work as greatly subordinate to one's other duties, only such time being spent upon the books as is necessary to keep the accounts somewhere near up to date. Neither should the capable and efficient superintendent regard such work as drudgery, but rather as of vital importance in order to ascertain the true measure of one's success as a business manager.

The ideal method to be pursued is to set aside a few minutes of each day, preferably in the evening, or perhaps one evening each week, for keeping the books. By allotting a regular time to such work, more interest will be taken in it, and the books will invariably be better kept.

The following list of Ledger accounts are suggestive of those that it would be advisable to keep in a well-conducted private dormitory owning its own building and house furniture and furnishings:

ASSETS:

- Land
- Building
- House Furniture and Furnishings
- Kitchen and Dining Room Equipment
- Laundry Equipment
- Linen
- Cash
- Petty Cash
- Accounts Receivable

LIABILITIES AND CAPITAL:

- Accounts Payable
- Mortgage Payable
- Capital or Investment Account

INCOME:

- Board and Room
- Income from Transients
- Income from Sale of Waste
- Telephone Commissions

EXPENSE:

- Food Supplies
- House Service
- Repairs and Renewals of Equipment
- Maintenance of Dormitory
- Fuel, Light and Water
- Stationery and Printing
- Advertising
- Telephone
- Salary of Manager
- Sundry House Expense
- Depreciation of Building
- Depreciation of Furniture and Furnishings

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A simple method of entering charges for board and room against all regular boarders in case such charges are to be made weekly, may be made up in a form which contains a series of money columns extending to the right of the names of boarders; each column would be headed with the date on which the week ends. A stock book may be procured containing twelve money columns which would cover a three months' period, or the book could be arranged with inter-leaved short sheets so that columns would be provided for an entire year, thus making unnecessary the rewriting of the names.

Following is an illustration of such a record:

WEEKLY RECORD OF BOARD AND ROOM CHARGES
277 CRESCENT ST.

Name	Room No.	Week ending Oct. 7	Week ending Oct. 14	Week ending Oct. 21	Week ending Oct. 28	Week ending Nov. 4	Week ending Nov. 11
L. B. Parsons.....	9	\$10					
C. E. Wilber.....	10	12					
J. M. Sullivan.....	12	9					
O. C. Gray.....	15	10					
H. F. Church.....	11	10					
K. R. McManus..	8	11					
M. K. Austin.....	7	10					
G. M. Manley....	6	10					
K. E. Donovan...	14	12					
G. E. McGrath...	13	9					
		<hr/> \$103					

FORM 13.

The footing of each column would be credited to Board and Room Income, while the individual items would be charged to the account with each boarder; a loose leaf ledger would doubtless be found to be the most satisfactory. As each person pays his board for the week, an entry is made in the cash book crediting him for the same, which when posted will offset the charge formerly made. New names are easily added, the first charge being inserted in its proper column, while names of those leaving the house are canceled.

CHAPTER XV

LIBRARY ACCOUNTS

The following exercise is designed to give some practice in operating a simple system of double entry books for a library of moderate size. While the exercise is not meant to serve as an extended treatment of accounting methods as adapted to libraries, yet the general principles underlying such accounts are given careful consideration, and the more common matters relating to bookkeeping routine illustrated. The principles presented are so general in their application that they may easily be adapted to other conditions and to libraries conducted along entirely different lines.

Briefly, the exercise should give the interested student under proper instruction, a clear understanding of the following points:

- (a) The principles of double entry bookkeeping.
- (b) Practice in the use of such books of account as the journal, cash book, petty cash book and ledger.
- (c) The routine processes of posting, taking a trial balance, closing the ledger, balancing the cash book, etc.
- (d) The handling of a petty cash fund.
- (e) Making up the pay roll.
- (f) The handling of various endowments and funds.
- (g) Some knowledge of investments and investment terms.
- (h) The preparation of a treasurer's report.
- (i) Library budgets.
- (j) Banking practice, including the handling of deposit slips, bank book, check book, proving cash, etc.

THE CLARK LIBRARY

The Clark Library, Dayton, Ohio, was established under the will of Judge Henry Curtis Clark, who died on March 27, 1900. By his will he gave the greater part of his property to the "Inhabitants of the City of Dayton" for the founding of a free public library.

The State Legislature by Chapter 210, Acts of 1900, gave authority to the city "to adopt and execute all the provisions of the will of Henry Curtis Clark, relating to the establishment and maintenance of a library in Dayton, and to perform all the conditions and to assume all the obligations mentioned in said will, and to be forever bound to the performance thereof."

The legislature on December 12, 1902, granted a charter incorporating the "Trustees of the Clark Library," and at a meeting of the City Council held December 20, the city accepted the provisions of the Acts of Incorporation and bound itself to the performance of the conditions of the will; among other things the city obligated itself:

"1. To pay all expenses incurred in the management and administration of the affairs of said library over and above the income derived from the fund provided by the will.

"2. To keep the library building in repair and to rebuild same in case of its destruction by fire or any other casualty.

"3. To erect or provide such other building or buildings as may hereafter become necessary in consequence of the enlargement of the library."

The will of Judge Clark provided for the establishment of three funds as follows:

A *Building Fund* of \$30,000 plus one-half of the income from all the funds to the end of the period set by the City Council during which the funds were to accumulate, this fund to be used in the purchase or erection and the equipment of a fireproof library building.

An *Aid Fund* of \$50,000, the income to be used in aid of the city in paying the maintenance expenses of the library.

A *Book Fund* consisting of the balance of the property after the creation of the other two funds, but not less than \$150,000, to be carefully invested and kept intact, and the income to be used in the purchase and binding of books, photographs, works of art, music, etc., and for no other purpose.

The City Council voted to allow the funds to accumulate until January 1, 1911, at the end of which time the trustees proceeded to erect and equip a building which, when completed, cost \$123,913.65, the equipment costing \$8,512.37 additional. The library was opened to the public in May, 1912.

In July, 1912, Dr. Herman Lowe died, and by his will gave to the inhabitants of the City of Dayton fifty thousand dollars to be securely invested until the same should amount to at least sixty thousand dollars, said fund to be known as the Lowe Aid Fund, and the income thereof to be used in aid of the City of Dayton in defraying the necessary current expenses of the Clark Library. The bequest was accepted and received by the city and was placed in charge of the treasurer.

The library under the control of an efficient and public-spirited Board of Trustees, elected by the citizens of Dayton, as provided in the will of Judge Clark, and under the administration of a capable, force-

ful, and practical librarian, very rapidly came to occupy a prominent place in the educational and social development of the city, and early justified the wisdom, generosity, and foresight of the donor.

The treasurer, elected by and from the Board of Trustees, is the financial officer of the library. The income from the different funds is made payable to him, and he pays all bills after they have been properly authorized for payment, and keeps a record of all receipts and disbursements, together with such accounts as will show the financial status of the library. He submits an annual report which is published as a part of the annual Report of the Trustees of Clark Library, under date of June 30, which is the last day of the fiscal year. The treasurer is assisted in the clerical work connected with keeping the accounts of the library by one of the members of the library staff who spends three afternoons each week in his office. The treasurer receives a salary of \$500.

The double-entry system of bookkeeping is used, and accounts are kept with assets, liabilities, and funds, with the different sources of income, and with the operating expenses. This method of keeping the books enables the treasurer to submit a report, showing the true financial condition of the library, together with an accurate statement of income and expenditure, and marks a distinct step in advance of the loosely kept, unscientific system of accounting which is all too common among libraries. If a record is kept only of cash receipts and disbursements, with no attempt to keep accounts with investment assets, it is impossible to determine the actual condition of the finances; if, on the other hand, the system of bookkeeping is so designed as to make possible a comparison of fixed and current assets covering a period of years, interesting conclusions may be drawn and helpful suggestions may be obtained which will aid the trustees in the financial administration of the library; furthermore, if the library is dependent, in whole or in part, upon aid from the city, the appropriation asked for might not be voted, unless the trustees were able to present an accurate statement of the finances of the library, together with a true accounting of income and expenditure.

The only books that the treasurer keeps are a Journal, Cash Book and Ledger. The Accessions Book is kept by the librarian and shows the cost or donated value of all books acquired. The librarian orders all books and supplies, approves the invoices when they come in, approves all expense bills, makes out the pay rolls, and turns them over to the treasurer for payment; receipts from fines are turned over to the treasurer every month. The librarian is supplied with a Petty Cash Fund from which small payments are made for supplies, minor repairs, express, car fare, etc., all payments from the fund being entered in a Petty Cash

Book. This fund is in charge of the same member of the library staff who assists the treasurer in keeping the accounts; she also gives a part of her time to secretarial and office work for the librarian.

Two separate bank accounts are kept by the treasurer. An account with the income from the Book Fund and with the Lost Books Fund is kept in the Commercial Bank, and one with the income from the Aid Funds and from all other sources, in the Merchants Bank. The three funds are managed entirely by the trustees, of which the treasurer is chairman. The trustees are responsible for the judicious investment of the funds, and for all records pertaining thereto.

A trial balance is taken monthly of the treasurer's General Ledger. The following is a copy of the trial balance taken March 31, 1920:

TRIAL BALANCE, MARCH 31, 1920

Cash—Commercial Bank.....	\$837.29	
Cash—Merchants Bank.....	587.09	
Petty Cash Fund.....	25.00	
Library Building and Lot.....	123,913.65	
Furniture and Equipment.....	27,630.87	
Book Fund Investment.....	215,400.00	
Clark Aid Fund Investment.....	50,000.00	
Lowe Aid Fund Investment.....	60,000.00	
Books.....	118,109.91	
Art and Music.....	27,657.80	
Book Fund.....		\$215,400.00
Clark Aid Fund.....		50,000.00
Lowe Aid Fund.....		60,000.00
Lost Books Fund.....		24.80
Surplus Invested in Building and Equipment.....		151,544.52
Surplus Invested in Books, Art and Music.....		139,667.66
General Surplus.....		25.00
Income from Book Fund.....		6,912.54
Income from Aid Funds.....		4,461.30
City Appropriation.....		6,000.00
Interest on deposits—Merchants Bank.....		21.27
Income from Fines.....		152.25
Income from Sale of Waste.....		132.68
Salaries of Librarian and Staff.....	3,762.60	
Newspapers and Periodicals.....	263.17	
Rebinding, Lettering and Repairing.....	152.97	
Library Supplies.....	232.80	
Expenses of Treasurer's Office.....	676.45	
Maintenance of Real Estate.....	2,830.20	
Maintenance of Forest Park Branch.....	1,637.20	
General Expenses.....	337.52	
Insurance on Books and Equipment.....	287.50	
	<u>\$634,342.02</u>	<u>\$634,342.02</u>

Comments on the Trial Balance.—It is the custom to close the books annually. As the fiscal year ends June 30, the above trial balance shows the accumulation of income and expense since July 1, 1919.

It will be observed that the credits to Book Fund, Clark Aid Fund and Lowe Aid Fund are the same as the debits to Book Fund Investment, Clark Aid Fund Investment, and Lowe Aid Fund Investment. This is explained by the fact that when each fund or endowment was originally received, an entry was made debiting Cash (if the executor of the estate turned over the gift to the library in cash), and crediting the proper fund. When this cash was invested in income-producing property or securities, an entry was made debiting the proper fund investment account and crediting Cash, leaving the accounts as they appear above. The *fund accounts* represent the liability or the accountability of the trustees of the library to the donor; the *investment accounts* represent the property or securities in which the funds are invested, and the two should always be in agreement.

Note that the sum of the debits to Library Building and Lot account and Furniture and Equipment account agrees with the credit to Surplus Invested in Building and Equipment.

At the close of the fiscal year, an adjusting entry is made, debiting Income from Book Fund and crediting Surplus Invested in Books, Art and Music for the total purchases of books, art and music for the year. When this entry is made, the sum of the debits to the Books account and to the Art and Music account should agree with the credit to Surplus Invested in Books, Art and Music. The adjusting entry may be made monthly if preferred.

The total of the accounts showing operating expenses subtracted from the total income exclusive of Income from Book Fund equals the balance in the Merchants Bank, this being the unexpended balance of the income from Aid Funds and from all other sources. The balance of the account in the Commercial Bank shows the unexpended balance of the Income from Book Fund, plus the balance of the Lost Books Fund; or, in other words, the Income from Book Fund less the balance in the Commercial Bank equals the investment in books, art and music made since the beginning of the fiscal year.

A careful study should be made of all the items in the trial balance. The use and function of each Ledger account should be understood and the rules for debiting and crediting each account as given hereafter carefully learned.

FUNCTIONS OF CERTAIN ACCOUNTS DEFINED

CASH—COMMERCIAL BANK

Debit:

Monthly with the total of the money column on the debit side of the cash book bearing a corresponding heading. The entries in this column represent the income received from the book fund investments, interest on this deposit account, and money received for lost books.

Credit:

Monthly with the total of the money column on the credit side of the cash book bearing a corresponding heading. The entries in this column represent payment of all invoices for books, binding, music and works of art.

The balance equals the money remaining on deposit in this account and shows the unexpended balance of income from the book fund plus the balance of cash received in payment for lost books.

CASH—MERCHANTS BANK

Debit:

At the close of each month with the total of the money column on the debit side of the cash book bearing a corresponding heading. The entries in this column represent the income received from all sources other than as defined under the account with the Commercial Bank.

Credit:

At the close of each month with the total of the money column on the credit side of the cash book bearing a corresponding heading. The entries in this column represent payments for everything except books, binding, art and music.

The balance equals the money remaining on deposit in this account and shows the unexpected balance of operating income.

BOOKS

Debit:

With the cost price of books purchased or with the appraised value of books donated.

Credit:

With the cost or donated value of books lost, discarded, or otherwise disposed of.

The balance of the account is an asset and shows the cost of all books in the library.

ART AND MUSIC

The same rules apply to debiting and crediting this account as are given for the Books account.

LOST BOOKS FUND

Debit:

With the cost price of books bought to replace lost copies for which payment was made to the library.

Credit:

With money received for lost books.

The balance of the account showing the amount not yet invested in new books should appear on the Liability side of the Balance Sheet under the sub-heading "Funds."

SURPLUS INVESTED IN BUILDING AND EQUIPMENT

The credit to this account represents the investment of gifts, bequests, or of any part of the general fund in buildings and equipment.

The balance should be shown on the Liability side of the Balance Sheet under the sub-heading "Surplus."

SURPLUS INVESTED IN BOOKS, ART AND MUSIC

Credit this account by means of a Journal entry made monthly or yearly with the investment in books, art and music for the period; at the same time debit Income from Book Fund.

The balance of the account represents the total surplus invested in books, art and music, and should be shown on the Liability side of the Balance Sheet under the sub-heading "Surplus."

GENERAL SURPLUS

Debit or credit this account at the close of the fiscal year with the net income or net deficit for the year.

If a part of the general surplus is expended for additions or improvements to the building or equipment, an entry should be made in the Journal debiting General Surplus and crediting the proper Surplus Investment account, in addition to the entry in the Cash Book debiting the proper Asset account and crediting Cash.

A deficit for the period is shown if the debits to the account exceed the credits; a net surplus is shown if the credits exceed the debits.

INCOME FROM BOOK FUND

Debit:

Monthly or yearly, as preferred, with the investment in books, art and music made during the period; at the same time, credit Surplus Invested in Books, Art and Music.

Credit:

With the income received from the Book Fund investments and with interest on deposits as shown by the monthly statements received from the bank in which the income is deposited.

The balance shows the unexpended income from the Book Fund and should be entered on the Liability side of the Balance Sheet.

INCOME FROM AID FUNDS
INTEREST ON DEPOSITS—MERCHANTS BANK
INCOME FROM FINES
INCOME FROM SALE OF WASTE

*Debit:**Credit:*

With income received from the source indicated by the titles of the accounts.

At the close of the fiscal year, the accounts are closed into the Income and Expense account by means of a Journal entry.

SALARIES OF LIBRARIAN AND STAFF
REBINDING, LETTERING AND REPAIRING
INSURANCE ON BOOKS AND EQUIPMENT

Debit:

With all payments made for the purposes indicated by the titles of the accounts.

Credit:

NEWSPAPERS AND PERIODICALS

Debit:

With subscriptions to the newspapers and periodicals with which the reading room is supplied.

Credit:

Subscriptions to newspapers and periodicals are usually paid for out of the current funds of the library and not out of the income from book funds. The expense of binding periodicals, however, which are to be placed on the shelves, should be met out of the income from book funds, and should be debited to the Books account at the cost of binding.

LIBRARY SUPPLIES

Debit:

With the cost of all supplies bought for use in the main library, including stationery, ink, pens, typewriter supplies, paste, dating stamps, numbering stamps, rubber stamps, blotting paper, waste baskets, erasers, shears, etc.

Credit:

EXPENSES OF TREASURER'S OFFICE

Debit:

With salary of treasurer, with services of assistant, and with all supplies bought for use in connection with the work of the treasurer, such as blank books, printed forms, stationery, etc.

Credit:

MAINTENANCE OF REAL ESTATE

Debit:

With the cost of repairs to building and fixtures, fences, cement walks and grounds, and with janitors' services, janitors' supplies, insurance on buildings, water tax, extra help for cleaning, etc.

Credit:

MAINTENANCE OF FOREST PARK BRANCH

Debit:

With salary of branch librarian and assistants, expressage on books to and from the main library, rent of building, heating, lighting, telephone service, supplies, etc.

Credit:

GENERAL EXPENSE

Debit:

With light, fuel, postage, telephone service, telegrams, traveling expenses, entertaining, publicity, etc.

Credit:

At the close of the fiscal year, the balances shown by the accounts showing expenses of operating the library are closed into the Income and Expense account by means of a Journal entry.

BOOKKEEPING PROCEDURE

The use and function of each book of account are defined briefly as follows:

Journal.—Used only for current transactions other than cash; for adjusting and closing entries; and for memoranda and data of a descriptive character.

Cash Book.—The cash book contains separate money columns on both debit and credit sides for Commercial Bank and for Merchants Bank. All money received which will later be deposited in the Commercial Bank is entered in that column including such items as heretofore described; likewise all checks drawn upon this account are recorded on the credit side and entered in the Commercial Bank column. Transactions affecting the Merchants Bank account will be handled in exactly the same manner.

Cash should be proved daily, or in this exercise whenever instructions are given for doing so. This is done by adding to the balance at the beginning of the month the total receipts from the first of the month to date and deducting therefrom the total payments for the month; the difference thus obtained equals the cash on deposit in the particular bank plus the cash on hand awaiting deposit.

The cash book should be balanced at the close of each month and all postings made therefrom.

Petty Cash Book.—This book is kept at the library while the cash book, journal and ledger are kept at the treasurer's office. It is a book in which are recorded all cash payments from the petty cash fund; it contains special columns for Library Supplies, General Expense, Maintenance of Real Estate, Sundry Items, and Daily Balance.

As bookkeeper you have charge of the Petty Cash Fund and make the payments from it. The fund is conducted according to what is known technically as the "Imprest Fund" system.

To establish the Imprest Fund, a check is drawn by the treasurer for an amount which it is thought will be adequate for all demands upon the fund for a certain period, say a month. An entry is made in the Cash Book debiting Imprest Fund, Petty Cash Fund, Librarian's Fund, or whatever other name may be given to it. The check is then converted into currency which is given to the person who is to have charge of the fund. The currency should be placed in a drawer or cash box, entirely apart from all other cash. Vouchers should be secured supporting every payment made from the fund, each payment being recorded in a Petty Cash Book. At the close of the month, or earlier, if the fund becomes exhausted, a statement of all payments made from the fund together with vouchers supporting same, is turned over to the treasurer who draws a check for an amount equal to the total disbursements as shown by the statement. When this check is cashed, it restores the fund to its original amount. When the check is drawn replenishing the fund, an entry is made in the General Cash Book, charging the proper accounts with the

payments made from the fund as shown by an analysis of the statement rendered by the petty cashier. It will be seen that the fund after being created remains intact; it is neither debited nor credited unless it is decided to increase or diminish the fund. The currency in the petty cash drawer plus the total of the vouchers should at all times agree with the amount of the fund as shown by the Imprest Fund account.

The following is suggested as a form of petty cash voucher:

PETTY CASH VOUCHER	
.....191..	No.....
Received from CLARK LIBRARY	\$.....
for.....	
Charge.....	Account
(Signed).....	

FORM 14.

General Ledger.—The ledger contains all accounts with assets, liabilities, income and expense. No change exists in methods of opening accounts, posting, and summarizing the accounts from those used in former exercises.

City Appropriation and Wages.—The appropriation made by the City Council for the current year was \$8,500. The librarian and staff, treasurer, janitors and other regular employees, receive a yearly salary payable in equal installments on or about the 15th and the 30th of each month. The treasurer's assistant receives \$50 per month as a member of the library staff and it is agreed that one-third of her salary shall be charged to the expenses of the treasurer's office. The present librarian is Henry W. Cutter; treasurer, Charles W. Childs.

Business Practice.—In order to provide a limited amount of practice in the use of business papers, particularly in handling a bank account, a check book, bank book and deposit slips on the Merchants Bank are included with the blank books used in the exercise. If it is desired to give practice in this part of the work, deposit slips should be filled out when indicated, and deposits recorded in the bank book, and on the stub of the check book. Expense bills of every character are paid from the income from the aid funds, and from the appropriation made by the city, which amounts are deposited in the Merchants Bank. Checks should therefore be drawn upon this bank in payment of all such bills. Checks should be signed Charles W. Childs, Treasurer, By _____.

Further directions regarding banking practice will be given by your instructor.

Opening Ledger Accounts.—You are the member of the library staff whose duty it is to assist the treasurer in keeping the accounts. You will now open accounts in the ledger with all accounts in the trial balance of March 31, and in the order in which they occur, allowing one-half page to accounts with assets and liabilities, and one page to income and expense accounts. The balance of each account is entered on the proper side under date of April 1, the word Balance being written in the explanation space.

Opening the Cash Book.—Enter the balances in both the Commercial Bank and the Merchants Bank on the debit side of the first page of the cash book under date of April 1, extending each balance in its proper column. Draw a line beneath both balances to show that they are not to be included in adding the columns later on.

Enter also the balance in the Merchants Bank on the stub of the Merchants Bank check book under date of April 1.

TRANSACTIONS FOR APRIL

2d. Bank statements received showing interest on daily balances for March in the Commercial Bank, \$5.30; (Credit Income from Book Fund); Merchants Bank, \$8.06; (Credit Interest on Deposits); receive April installment of city appropriation, \$500.

5th. Receive income Clark Aid Fund, \$67.50; pay Dayton Gas and Electric Co., lighting bill for March, Main, \$32.99, Branch, \$7.80; Herald Printing Co., library supplies, \$22.50; Central Telephone Co., March, \$3.25; Elite Laundry, \$4.56.

6th. Make a deposit of cash on hand which is for deposit in the Merchants Bank, entering the total of such items on the deposit slip, in the pass book, and on the stub of the check books; the items themselves cannot be shown because details of the form in which money is received are not given. Subsequent instructions regarding the making of deposits should be carried out in the same way.

6th. Receive income from Book Fund, \$600; E. R. Cullen pays for lost book, \$2.60; pay A. B. Holmes for typewriting, \$13; Merchants Bank, safe deposit box rental, \$8.

10th. Pay Berlin Photograph Co., photographs, \$185.15; Richard Badger, books, \$114.46; P. Blackington Sons Co., binding, \$26.90. (Charge Books account.)

13th. Receive income from Lowe Fund, \$125; pay Anderson Auction Co. for books, \$312.15.

15th. Write check covering pay roll as follows: librarian and staff, \$275; treasurer, \$20.83; janitors, \$57.50; charge \$60 of pay roll to Maintenance of Forest Park Branch (\$60 included in \$275).

In making your entry for the pay roll, debit Salaries of Librarian and Staff for \$206.67; Maintenance of Forest Park Branch, \$60; Expenses of Treasurer's office, \$8.33, being one-third of wages of library assistant who keeps the books; Expenses of Treasurer's office, \$20.83 (Treasurer's Salary); Maintenance of Real Estate, \$57.50. The first three items make a total of \$275 as given above under "librarian and staff;" total pay roll check \$353.33.

For pay roll purposes, a Pay Roll should be made up giving a list of all employees of the library and the amount due them as of the pay roll date.

Form 15 illustrates such a pay roll.

This form of pay roll is so planned that as the employees are paid they sign their name on the line with the amount received. Instead of a receipt being obtained in this way, small vouchers may be provided containing spaces for the date, amount and signature of the employee.

Prove cash in the Merchants Bank. (If banking practice is not required, it is not possible to prove cash.)

16th. Sell a lot of old catalogue cards to the School Department, City of Dayton, \$17.50. (Credit Income from Sale of Waste.)

19th. Make deposit; pay Library Bureau for library supplies, \$108; Lea & Febiger, books, \$184.30.

22d. Pay dues American Library Association, \$5.

23d. Pay James Munroe for repairing roof and chimneys, \$9.80.

25th. Receive income from Aid Funds, \$72.50.

28th. Pay Smith Premier Typewriter Co. for repairing machines, \$14.85; librarian's bill for traveling expenses, \$16.45; Kimball & Cory Coal Co., coal, \$190.

30th. Receive income from Aid Funds, \$30; Book Fund, \$60; write check for pay roll; make deposit.

<div style="display: flex; justify-content: space-between;"> <div> CLARK LIBRARY DAYTON, OHIO </div> <div>No. _____</div> </div>						
PAY ROLL FOR _____ ENDING _____ 19__ CHECK No. _____						
	NAME	RATE	AMOUNT EARNED	ADVANCES	AMOUNT RECEIVED	SIGNATURE
I HEREBY CERTIFY THAT THE ABOVE IS A TRUE RECORD OF SERVICES RENDERED DURING THE PERIOD COVERED <div style="text-align: right;">LIBRARIAN</div>			EXTENSIONS AND FOOTINGS CHECKED <div style="text-align: right;">BOOKKEEPER</div>		APPROVED FOR PAY- MENT <div style="text-align: right;">TREASURER</div>	

FORM 15.—PAY ROLL.

On April 1, you had in the petty cash drawer currency equal to the full amount of the fund, the fund having been replenished on March 31. During April you made payments from the fund as follows: April 7, stamped envelopes, \$10.24; 12th, express, \$1.25; 17th, carfare, 50c.; 18th, brooms, \$1.60; 22d, express, 60c.; 25th, two panes of window glass replaced, \$1.50; 29th, parcel post stamps, \$1; 30th, express, 75c.

Show the Petty Cash Book with all payments for the month entered. On May 1, you submit a statement to the treasurer showing the April disbursements, and a check is drawn to replenish the fund.

Draw a check for \$17.44 the amount necessary to replenish the fund and as per summary make entries in the cash book charging General Expense \$14.34 and Maintenance of Real Estate, \$3.10.

Close the petty cash book and record the amount received to replenish the fund. The following illustrates the petty cash book as it should appear after closing.

PETTY CASH BOOK									
DATE	EXPLANATION	LIBRARY SUPPLIES	GENERAL EXPENSE	MAINT. OF REAL ESTATE	SUNDRY	DAILY BALANCES			
	<i>Balance</i>								
Apr 1	<i>Balance</i>								25
7	<i>Stamped Envelopes</i>		10.24						14.76
12	<i>Express</i>		1.25						13.51
17	<i>Carfare</i>		50						13.01
18	<i>Brooms</i>			1.60					11.41
22	<i>Express</i>		60						10.81
25	<i>Replacing Two Panes of Glass</i>			1.50					9.31
29	<i>Parcel Post Stamps</i>		1						8.31
30	<i>Express</i>		75						7.56
	<i>General Expense</i>		14.34						
	<i>Maintenance of Real Estate</i>			3.10					
Apr 1	<i>Balance</i>								7.56
	<i>Rec'd to Replenish Fund</i>								17.44
									25.00

FORM 16.—PETTY CASH BOOK.

Balance the cash book for April and do all posting for the month. You have no journal entries to post for April. See explanations of the two cash accounts for a reminder of how the monthly totals are posted to these accounts. In posting, write such explanations in the space provided in the ledger as will make certain postings self-explanatory.

Take a trial balance on a loose sheet of journal paper; the postings for April should be added to the balances of April 1, in order that the trial balance for April may show cumulative totals to date. Do not forget to folio all postings.

Submit the trial balance for inspection and if it is correct copy it in the proper blank book.

MAY TRANSACTIONS

Forward cash balances to a new page.

1st. Receive May installment of city appropriation, \$1,000.

2d. Receive bank statements showing interest credited on daily balances in Commercial Bank, \$1.10; in Merchants Bank, \$1.32; receive from librarian for fines, \$3.60.

3d. Receive income from Lowe Aid Fund, \$119.75.

4th. Make deposit; pay Dayton Gas & Electric Co., lighting, Main, \$22.44, Branch, \$6.35; H. C. Ward & Co., supplies, \$6.05; Elite Laundry, \$6.10; Central Telephone Co., \$3.25; Diamond Paste Co., \$3.50.

6th. Pay Kingsbury Printing Co. for printing, \$6.50.

10th. Receive income from Book Fund, \$120; Thomas Hart pays \$1.50 for a book which he lost.

11th. Receive income from Aid Funds, \$32.50; pay W. B. Clark Co. for books, \$20; these books were bought to replace lost copies for which payment has been received; make deposit.

13th. The Trust Funds Committee report the sale of a parcel of real estate in which a part of the Lowe Fund was invested, at an increase over cost of \$5,000; the amount received for the real estate was immediately invested by them in bonds. (Journal entry debiting Lowe Aid Fund Investment and crediting Lowe Aid Fund for \$5000.)

14th. Pay Charles Jacobs for books, \$103.75; Detroit Publishing Co., photographs, \$24.80; G. E. Stechert & Co., books, \$87.92.

15th. Write check for pay roll. Prove cash in the Merchants Bank.

17th. Buy typewriter from Fox Typewriter Co., \$110; pay invoice of Library Bureau for new cabinet case, \$292; buy new chairs of C. N. Harlow Co., \$57.60. (As these purchases represent an investment of a part of the Aid Fund in new equipment, a Journal entry should also be made debiting General Surplus and crediting Surplus Invested in Building and Equipment.)

18th. Receive income from Aid Funds, \$102.25; make deposit.

20th. Receive a bequest of \$10,000 from the estate of Samuel W. Lee for the creation of a fund to be used in the purchase of a lot and the erection of a suitable building for the Forest Park Branch. This fund, to be known as the Forest Park Building Fund, is to remain in the custody of the treasurer and by him invested until such a time as the fund increased by interest accumulations, subsequent bequests or gifts, or by appropriation of the City Council shall be adequate for the purpose intended; receive also from the executor of the estate the sum of \$500 which with interest accumulations is to be used in the purchase of a memorial tablet

to be placed in the building when erected. This bequest together with the Memorial Tablet Fund is deposited in the Merchants Bank awaiting investment. Write a memorandum of this bequest in the Journal and make proper Cash book entries.

23d. Receive from sale of waste paper, \$12; pay Wheat & Packard for rubber matting, \$33. (Make entry in Journal in addition to Cash Book. See explanation on the 17th.)

24th. Pay Globe Printing Co. for printing 1,000 copies of the Clark Library By-Laws and Regulations for free distribution, \$125. (General Expense.)

25th. Receive income from Aid Funds, \$55; income from Book Fund, \$300.

27th. Pay Frank W. Kidder, \$100 for option on proposed building lot for new branch library, the option to expire June 15. (Debit Option on Building Lot.)

An option in the above sense is a privilege, granted for a limited time and secured by the payment of a nominal sum of money, of purchasing land at a certain price. The amount paid for the option applies on the purchase price in case the sale is completed.

29th. Make deposit; transfer by check the Lee Memorial Tablet Fund to the Park Savings Bank where it will go on interest June 1. Debit Lee Memorial Tablet Fund Investment; write check for pay roll. Submit statement of petty cash payments for May as follows: 5th, post cards, \$2; 8th, luncheons, \$1.50; 11th, incidental supplies, \$2.40; 12th, expressage, \$1.40; 18th, postage, \$10; 25th, extra help cleaning, \$2.60. Write a check for the replenishment of the fund; make entry in the General Cash Book; show Petty Cash Book with May payments recorded. Prove cash.

Close Cash Book, post all entries from Cash Book and Journal, and take a trial balance.

Open any new ledger account that may be necessary. Proceed with the details of the work as in April.

TRANSACTIONS FOR JUNE

2d. Receive remainder of city appropriation for the fiscal year, \$1,000; receive income from Book Fund, \$250; deposit these amounts.

3d. Receive Commercial Bank statement for May showing interest added, \$1.38; Merchants Bank, \$6.12; receipts from fines for May, \$11.30.

4th. Pay the following bills: Elite Laundry, \$4.75; Dayton Gas & Electric Co., Main, \$19.71, Branch, \$5.95; Central Telephone Co., \$3.90; Carter's Ink Co., ink and pens, \$6.25.

8th. Cashed check of \$50 to provide Mr. Cutter, the librarian, with traveling expenses while attending the meeting of the American Library Association to be held in Pittsburgh, June 8-10.

9th. Pay Phelps & Co., \$16.50 for repairing clock.

10th. Receive from sale of waste paper, \$18.75.

11th. Pay Chivers Bookbinding Co., binding magazines, \$205.60; D. Appleton Co., books \$131.85; Boston Music Co. music, \$24.60.

12th. Pay Dennison Manufacturing Co., library supplies, \$4.50; Dayton Art Store, framing pictures, \$35. (Charge Art and Music.)

14th. Receive income from Book Fund, \$300; Mr. Cutter refunds expense money, \$16.80.

15th. Write check covering pay roll, \$353.33; take up option on building lot which expires today; the price agreed upon for the lot is \$2,500; write Mr. Kidder a check for that amount, less the \$100 already paid. (Make a Journal entry closing Option on Building Lot account into Forest Park Building Lot account.) Prove cash. (Make an entry debiting Forest Park Building Fund and crediting Surplus Invested in Forest Park Building Lot for cost of lot to date, \$2,500.)

16th. Receive income from Aid Funds, \$22.50; make deposit.

19th. Buy seven \$1,000 City of Dayton 4's for \$6,750 from the Forest Park Building Fund. The interest on these bonds is payable semi-annually on June 30 and December 31. (Debit Forest Park Building Fund Investment.) Deposit the remainder of the fund, \$750, in the Park Savings Bank, debiting Forest Park Building Fund Investment.

22d. Pay Buffalo Historical Society for books, \$23.20; Chivers Bookbinding Co., binding magazines, \$217.79.

23d. Pay J. W. Hanford, blotting paper, \$8; West Disinfecting Co., supplies, \$17.50.

25th. Pay bill of H. C. Paul & Co. for two new tables for reading room, \$65. (Addition to equipment requiring, in addition to cash book entry, a journal entry debiting General Surplus and crediting Surplus Invested in Building and Equipment.

26th. Pay Ritter & Flebbe, books, \$47.50; G. E. Stechert & Co., books, \$187.70; pay Dayton Binding Co., rebinding books, \$9.60. (Debit Rebinding, Lettering and Repairing.)

27th. Pay Hayden Express Co. bill for transferring books to and from Forest Park Branch, \$20.

28th. Pay J. B. Lippincott Co., books, \$75; Doubleday, Page & Co., books, \$112.35.

29th. Pay C. H. Lyman & Co., subscriptions to periodicals, \$38.60; receive income from Aid Funds, \$45-62. Make deposit.

30th. Receive check for interest on City of Dayton bonds, \$140, which is immediately deposited in Park Savings Bank. As this interest is immediately deposited in the savings bank, it need not be entered in the cash book, an entry being made in the journal debiting Forest Park Building Fund Investment and crediting Forest Park Building Fund, as both the fund and the investment thereof are increased to the amount of interest received.

Write check for pay roll; pay John F. Martin, agent, rent of rooms occupied by the Forest Park Branch for April, May and June, \$300.

Petty cash payments for June were as follows: 3d, express, 75c.; 6th, postage stamps and post cards, \$5; 15th, recording deed, \$2; 22d, library supplies, 30c.; 25th, lawn mower sharpened, 25c.; 29th, carfare, 20c.; write check for the replenishment of the fund; make entry in General Cash Book; show Petty Cash Book with June disbursements recorded.

Close Cash Book, do all posting to date. Do not forget to post the journal entries.

Make an entry in the Journal debiting Income from Book Fund and crediting Surplus Invested in Books, Art and Music with the total cost of books, art and music bought during the year, \$8200.07. The amount so invested is found by deducting the balance in the Dayton National Bank (less the balance of the Lost Books Fund), from the Income from Books Fund. Post the entry just made. Take a trial balance.

CLOSING THE BOOKS

You will now prepare the report of the treasurer as of the close of the fiscal year, and close the ledger.

The treasurer's report will consist of the following:

- (a) Presentation letter.
- (b) Balance Sheet, June 30, 1920.
- (c) Statement of Income and Expense, July 1, 1919 to June 30, 1920.

While the above is the order in which the different parts of the report should be arranged to submit to the treasurer, the work should be prepared in reverse order, the statement of income and expense being prepared first; both statements are prepared from the trial balance of June 30.

Statement of Income and Expense.—Following is a model to be followed:

LIBRARY ACCOUNTS

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CLARK LIBRARY

EXHIBIT B

STATEMENT OF INCOME AND EXPENSE, YEAR ENDING JUNE 30, 1920

INCOME FROM ALL SOURCES:

Income from Aid Funds.....	\$**
City Appropriations.....	**
Interest on Deposits—Merchants Bank.....	**
Income from Fines.....	**
Income from Sale of Waste.....	**

TOTAL INCOME..... \$**

EXPENSES:

Salaries of Librarian and Staff.....	\$**
Newspapers and Periodicals.....	**
Rebinding, Lettering and Repairing.....	**
Library Supplies.....	**
Expenses of Treasurer's Office.....	**
Maintenance of Real Estate.....	**
Maintenance of Forest Park Branch.....	**
Insurance on Books and Equipment.....	**
General Expense.....	**

TOTAL EXPENSES..... **

NET INCOME..... \$**

Balance Sheet.—Following is a model to be followed in preparing the balance sheet:

CLARK LIBRARY

EXHIBIT A

BALANCE SHEET, JUNE 30, 1920

Assets

CURRENT ASSETS:

Cash—Commercial Bank.....	\$**
Cash—Merchants Bank.....	**
Petty Cash Fund.....	**

PROPERTY AND EQUIPMENT:

Library Building and Land.....	\$**
Forest Park Building Lot.....	**
Furniture and Equipment.....	**

BOOKS..... **

ART AND MUSIC..... **

INVESTMENTS:

Book Fund Investment.....	\$**
Clark Aid Fund Investment.....	**
Lowe Aid Fund Investment.....	**
Lee Memorial Tablet Fund Investment.....	**
Forest Park Building Fund Investment.....	**

TOTAL ASSETS..... \$**

Liabilities and Surplus

CURRENT LIABILITIES:

Unexpended Balance of Income from Book Fund.....		\$**
--	--	------

ENDOWMENTS AND FUNDS:

Book Fund.....	\$**	
Clark Aid Fund.....	**	
Lowe Aid Fund.....	**	
Lost Books Fund.....	**	
Forest Park Building Fund.....	**	
Lee Memorial Tablet Fund.....	**	**

SURPLUS OR DEFICIT:

Invested in Building and Equipment:

Balance July 1, 1919.....	\$**	
Add: Equipment Bought during Year.....	**	\$**

Invested in Books, Art and Music:

Balance July 1, 1919.....	\$**	
Add: Purchased during Year.....	**	**

Invested in Forest Park Building Lot.....

	**	**
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General Surplus.....	**	**
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TOTAL LIABILITIES AND SURPLUS.....		\$**
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Presentation Letter.—See model, pages 215 and 216.

Closing the Ledger.—Make closing entries in the journal, by which all accounts showing an income or expense are closed into the Income and Expense account, and the balance of that account into Surplus.

The following illustrates the form of such entries:

CLOSING ENTRIES, JUNE 30, 1920

(1)

Income from Aid Funds.....	\$**	
City Appropriation.....	**	
Interest on Deposits—Merchants Bank.....	**	
Fines.....	**	
Sale of Waste.....	**	
Income and Expense.....		\$**

To close all accounts showing an income into the Income and Expense account.

(2)

Income and Expense.....	\$**	
Salaries of Librarian and Staff.....	\$**	
Newspapers and Periodicals.....	**	
Rebinding, Lettering and Repairing.....	**	
Library Supplies.....	**	
Expenses of Treasurer's Office.....	**	
Maintenance of Real Estate.....	**	
Maintenance of Forest Park Branch.....	**	
Insurance on Books and Equipment.....	**	
General Expenses.....	**	

To close all accounts showing an expense into the Income and Expense account.

(3)

Income and Expense.....	\$**	
General Surplus.....		\$**

To close the net income for the fiscal year into General Surplus.

MISCELLANEOUS EXERCISES

1. Find yearly per cent. of income realized from Book Fund Investment; from Aid Funds Investment.

2. Prepare bank statement of the Merchants Trust Company received June 3. (Envelope system.) You find that three of the checks issued during May were not returned by the bank. How do you account for this? Prepare a Reconciliation of Bank Statement.

3. Journalize the following: October 3, the Deerfield Library received a cash gift of \$5,000 from Patrick L. Sullivan, the income to be used for the purchase of standard Catholic books. October 16, the money was invested in stock of the Commercial National Bank, at \$260 per share. December 1, a quarterly dividend of 3 per cent. was received on the bank stock.

How much of the Sullivan fund remains uninvested?

4. (a) From the following schedule of monthly salaries paid by Clark Library, make out the pay roll for April 15 on the pay roll blank which you designed.

Henry W. Cutter, Librarian.....	\$180.00
Nellie Vining, Librarian, Forest Park.....	60.00
Florence Wright, Forest Park Asst.....	40.00
Mary E. Martin.....	50.00
Harriet W. Cobb.....	50.00
Bertha M. Wood.....	35.00
Alice C. Damon.....	40.00
Fannie N. Bell.....	35.00
Hazel Baxter.....	40.00
Anna J. Walsh (Forest Park).....	20.00
Charles W. Childs, Treasurer.....	41.66
William Dewey, Janitor.....	75.00
Frank W. Merrill, Asst. Janitor.....	40.00

(b) Prepare a memorandum to give to the bank teller with the pay roll check showing the number of bills and coins of different denominations required to make up the pay envelopes.

5. As librarian of the Rutland Free Library, prepare a budget of estimated expenditures for the year 1913 to present to the City Council in support of a request for an appropriation of \$9,000. The budget should show estimates for Books, 20 per cent.; Periodicals, 3.5 per cent.; Binding, 3 per cent.; Salaries, 37.3 per cent.; Heat and Light, 9.2 per cent.; Repairs, 2 per cent.; Permanent Improvements, 3 per cent.; Insurance, 1.8 per cent. Library Supplies, 2.6 per cent.; Janitor, 5.8 per cent.; Incidentals, 11.79 per cent.

CHAPTER XVI

LAWYERS' ACCOUNTS

Lawyers' accounts present no complication to the person who has a good understanding of the principles of bookkeeping and the method adopted of keeping such accounts may, in most cases, be made quite simple.

As in all types of bookkeeping, a classification of accounts that will show a complete analysis of income, expense, assets and liabilities, is the first thing with which the student should become familiar. This classification would be subject to many modifications due to varying circumstances associated with the practice of the firm, but the following list of general ledger accounts may be regarded as somewhat typical of the accounts of a law firm of moderate size engaged in general practice:

ASSETS:

- Cash
- Petty Cash
- Accounts Receivable
- Notes Receivable
- Office Furniture and Equipment
- Law Library
- Investments

LIABILITIES:

- Accounts Payable
- Clients' Retainers in Suspense
- Collections in Suspense
- Reserve for Depreciation of Office Equipment
- Capital accounts
- Drawing or Current Accounts with each member of the firm.

INCOME:

- Fees—General
- Annual Retainers
- Income from Collections
- Interest on Bank Balances
- Income from Investments
- Profit on Securities Sold

EXPENSE:

- Salaries and Wages of Office Staff
- Rent of Offices
- Law Stationery
- Office Supplies
- Postage
- Telephone, Telegrams, and Messenger Service
- Periodicals and Newspapers
- Federal and State Income Tax
- Traveling Expenses
- Entertaining
- Office Expense—General
- Depreciation of Office Equipment
- Loss on Sale of Securities
- Loss from Bad Accounts

Many of the above accounts are already familiar to the student, and the functions of others is indicated by their titles. Certain ones, however, that are entirely new will be explained.

Controlling Accounts.—The use of controlling accounts is illustrated for the first time in the exercise which follows and inasmuch as this is an important principle in bookkeeping it deserves particular comment.

We have learned that while the general journal is regarded as the primary book of original entry, it is necessary to use certain special journals, such as the cash journal, purchases journal and sales journal, in order to systematize the work to better advantage and to provide a better classification of the transactions.

Likewise we begin with one ledger in which all accounts of whatever class are kept, but as the accounts increase in number and complexity, it becomes necessary to introduce certain special ledgers, each one containing accounts of a certain type.

The most common special ledgers are the customers' or sales ledger, and the creditors' or purchases ledger, subdivisions of the ledger made necessary by the large number of accounts with customers and creditors usually found in a mercantile business. The customers' ledger, as its title indicates, is one which contains accounts with all customers, while the creditors' ledger is one in which all creditors' accounts appear.

It is apparent that if the entire group of accounts with customers or with creditors be removed from the general ledger, it will no longer be in balance. In order to restore the balance of the general ledger a single account is inserted which takes the place of the entire group which was removed; such an account is usually spoken of as a controlling account.

A *controlling account* is therefore an account in the general ledger which serves as a substitute for a group of accounts of the same class kept in a special or subsidiary ledger.

It is desirable to provide a special ledger, for accounts of the same general class, for several reasons. The number of general ledger accounts is reduced thereby; a better classification of the accounts is made for bookkeeping purposes; a different type of ledger may be adopted, such as a card ledger or a loose leaf ledger, for the accounts of a particular class; the work of the office may be better systematized by dividing it up among different ledger clerks; the work of taking a general ledger trial balance is much simplified.

Most institutions and professional men would find it necessary in a well-planned system to provide for a controlling account with Accounts Receivable and a corresponding subsidiary ledger for the individual accounts of that particular class. Following is a list of the more common titles to such ledgers:

TYPE OF ACCOUNTS	CONTROLLING ACCOUNT	SUBSIDIARY LEDGER
Lawyer	Accounts Receivable	Clients Ledger
Physician or Dentist	Accounts Receivable	Patients Ledger
Hospital	Accounts Receivable	Patients Ledger
School or College	Accounts Receivable	Students Ledger
Club or Society	Accounts Receivable	Members Ledger
Bank	Deposits	Depositors Ledger

The fundamental principle which applies to the use of such accounts is that postings of individual items to the accounts in the subsidiary ledger must be supported by the posting of the same items, usually by monthly totals, to the proper controlling account. If this principle is followed out, the sum of the balances of all open accounts in the subsidiary ledger, at any time, after all posting has been done, must equal the balance shown by the controlling account. After a trial balance has been drawn from the general ledger, it can be assumed that the balance shown by the controlling account is correct; the subsidiary ledger is then proved by taking off a list of the balances of the open accounts contained therein as a proof that they are in agreement with the controlling account.

The clerical work of posting to both the individual accounts and the controlling account is greatly reduced by providing books of original entry with special money columns for each subsidiary ledger. In this way the items affecting an account in a subsidiary ledger are entered in

the special column corresponding thereto; the items in this column would be posted individually to the subsidiary ledger, while the total would be posted monthly to the controlling account.

The following exercise may be used as a class demonstration of the method of handling controlling accounts.

EXERCISE

Make entries for the following transactions in a cash book, sales journal and purchases journal. Provide a special column on the debit side of the cash book for accounts receivable and on the credit side for accounts payable.

Jan. 1. You begin business with a cash investment of \$5,000.

5. Buy goods on account from A. B. Green, \$300.
6. Buy goods on account from J. S. Woods, \$400.
7. Buy goods on account from S. A. Mills, \$650.
8. Sell goods on account to W. E. Smith, \$100.
15. Sell goods on account to G. W. Miner, \$150.
16. Sell goods on account to P. C. MacKay, \$245.
17. Pay cash on account to A. B. Green, \$120.
19. Pay cash on account to J. S. Woods, \$230.
22. Receive cash on account from W. E. Smith, \$75.
25. Receive cash on account from G. W. Miner, \$80.
28. Receive cash on account from P. C. MacKay, \$200.
30. Pay rent for January, \$50.

The following is required:

- (a) Open accounts in a general ledger, customers' ledger, and creditors' ledger.
- (b) Post all entries to their respective ledgers.
- (c) Take a trial balance from the general ledger and prove the customers' and creditors' ledgers with their respective controlling accounts.

The Accounts Receivable account is a controlling account for the Clients Ledger in which accounts with all clients appear.

ACCOUNTS RECEIVABLE

Debit:

With total charges against clients for the month; these charges come from the Bill Journal, Cash Disbursements book, and from occasional entries in the general journal.

Credit:

With total receipts from clients in payment of their accounts, also with adjustments and other credits from the journal.

The balance is a debit and represents the total amount due from clients. This balance should equal the sum of all balances in the Clients Ledger.

ELEMENTS OF ACCOUNTS

CLIENTS RETAINERS IN SUSPENSE

Debit:

At the close of each month with the footing of the special column in the bill journal bearing the corresponding heading.

Credit:

At the close of each month with the footing of the special column in the Cash Receipts book bearing the corresponding heading.

These retainers represent advance payments on account of fees for cases about to be undertaken; such deposits are often exacted as an evidence of good faith and as an insurance against entire loss of compensation for work done on a case.

The balance of this account is always a credit and represents the total advances made by clients on account of cases not yet begun or still in litigation, and for which the client has not been billed.

This is a controlling account for a special ledger in which accounts are kept with all clients who have paid a retaining fee in order to secure the services of the firm. Accounts are opened in this special ledger when such retainers are paid, and postings are made thereto from the Cash Book. When a case is completed and the client billed, the account with the client is debited from the Bill Journal, such retainer then applying on the fee charged for the services rendered. This account is a liability and is so stated in the balance sheet.

COLLECTIONS IN SUSPENSE

Debit:

With the remittances to a client in settlement of a claim or debt which has been collected, less the commission charged. An entry should be made at the same time in the general journal debiting this account for the commission charged and crediting Income from Collections.

Credit:

With collections made on account of claims and debts placed in the hands of the firm for collection.

This is a controlling account, accounts with individual clients being kept in a Collections Ledger, or Collections Docket, as it is often called. The balance is always a credit and represents the amounts collected for which no accounting has yet been made to the client. The account represents a liability of the firm.

ANNUAL RETAINERS

*Debit:**Credit:*

With annual retainers received from corporations and individuals for which the firm serves as general counsel, such fee being in addition to the regular fees charged such clients for actual services rendered.

This account represents an income of the firm and is closed into the Income and Expense account.

FEES—GENERAL

*Debit:**Credit:*

At the close of each month with the footing of the Fees column in the Bill Journal.

From the cash book, with consultation fees and office fees paid in cash at the time, thus making it unnecessary to render a bill.

This account represents the main source of income of the firm and is closed into the Income and Expense account.

LOSS ON BAD ACCOUNTS

Debit:

With uncollectible accounts of clients. Such accounts as are known to be bad are usually charged off at the close of the fiscal year by means of a journal entry debiting this account and crediting the individual accounts. Such credits must be posted both to the individual accounts in the Clients Ledger and to the Accounts Receivable account in the General Ledger.

Credit:

This account shows a loss and is closed into the Income and Expense account.

CAPITAL AND DRAWING ACCOUNTS

A separate account should be kept with each member of the firm who has made any investment of cash or other tangible property. Usually no investment is made by new members admitted to the firm, such admission being merely by a special agreement relative to the sharing of the earnings. The original member or members of the firm would in most cases make a small investment for the purchase of furniture and equipment, law library, etc.

A separate drawing or current account should be kept with each member of the firm. This would be credited with each partner's share of the earnings of the firm and debited with all drawings made. At the close of the year, a credit balance to the account would represent the amount of undrawn earnings, while a debit balance would show the amount drawn in excess of the share of the earnings to which the partner is entitled. These balances should be shown on the proper side of the Balance Sheet.

BOOKS OF ACCOUNT

The books of account most commonly found in a law office are the following:

ORIGINAL ENTRY:

- General Journal
- Bill Journal
- Cash Book
- Petty Cash Book

LEDGERS:

- General Ledger
- Clients' Ledger
- Retainers' Ledger
- Collections Ledger

AUXILIARY Books:

- Letter Press Copy Book
- Blotter or Diary for each member of the firm
- Trial Balance Book

A brief description of each book follows:

General Journal.—This book is used for entries of a miscellaneous nature, such as for notes received from clients, adjustments, bad accounts, charged off, closing entries, and for memoranda of an historical character relating to the affairs of the firm.

Bill Journal (Form 17).—This book serves as a register of all bills rendered to Clients. When a case is completed, either verbal or written instructions are given the stenographer who does the billing regarding the fee to be charged. Any disbursements made by the firm for reimbursable expenses incurred on account of the case, are ascertained by reference to the clients account in the Clients Ledger which would have been opened on such a case; if a retainer was paid when the case was undertaken which is to apply on the fee charged, such retainer will appear as a credit to the client's account in the special ledger kept for that purpose. The bill rendered will, therefore, be for the amount of the fee plus reimbursable expenses, if any, and minus the retainer, if any, the net amount showing what is now owed by the client.

When the bill is made out an entry is made in the bill journal charging the client for the amount of the fee (reimbursable expenses have formerly been charged through the cash book); if a retainer was paid, the effect of the entry is also to close out the account in the Retainers Ledger, and transfer it as a credit to the client's account on the regular Clients Ledger

The amount of the fee charged is entered on the "Accounts Receivable Dr." column and in the "Fees Cr." columns. If a retainer applies on the fee charged, it is entered in the "Clients Retainers in Suspense Dr." column and in the "Accounts Receivable Cr." column.

[illegible]

FORM 17.—BILL JOURNAL.

As the client is billed, his account in the Clients Ledger is debited with the amount entered in the "Accounts Receivable Dr." column and credited with the amount, if any, which appears in the "Accounts Receivable Cr." column; his account in the Retainers Ledger, if it appears there, is debited from the "Clients Retainers in Suspense Dr." column.

At the end of the month, after all bills have been rendered and recorded, the bill journal is footed and closed and the totals of the several columns posted to the proper accounts in the general ledger.

Cash Book.—The debit side of the Cash Book contains four money columns headed respectively, Accounts Receivable, Cr., Clients Retainers in Suspense, Cr., Sundry Credits, and Net Receipts. The credit side has three columns for Accounts Receivable Dr., Sundry Debits, and Net Payments.

All amounts received from clients in payment of bills previously rendered are entered in the Accounts Receivable column and also extended in the Net Receipts column; retainers received from clients are entered in the Clients Retainers in Suspense column and also extended in the Net Receipts column; credits to miscellaneous accounts are entered in the Sundry Credits and the Net Receipts columns.

All disbursements in the nature of expenses chargeable to clients are entered in the Accounts Receivable and Net Payments columns, all other disbursements are entered in the Sundry Debits and Net Payments columns.

Cash received from whatever source is deposited and all payments are by check, except those expenditures which must for convenience be made in currency, for which a special Petty Cash Fund and a Petty Cash Book are provided.

The Cash Book is balanced at the close of each month and all postings made therefrom. The separate entries should be posted at odd times during the month which leaves only the footings of the special columns to be posted at the close of the month, which postings are made as indicated by the headings of the columns.

Petty Cash Book.—The petty cash fund is handled as is explained on page 137. Payments from the fund include such items as postage, incidental purchases of office supplies, cleaning and cleaning supplies, carfares, etc.

The Petty Cash Book may contain columns for Date and Particulars and money columns for Office Supplies, Postage, Traveling Expenses, Miscellaneous Expense Accounts, and Balance. Payments are recorded in this book as made. No postings are made from the Petty Cash Book; a summary of all payments is made at the close of the month showing the ledger accounts chargeable with the various disbursements; a check is then drawn to replenish the fund, entries being made for the check in the Cash Book charging the general ledger accounts shown by the summary.

EXERCISE FOR THE STUDENT

Following is a trial balance taken from the general ledger of the firm of Stickney, Hinds, Rollins & Chase, with offices at 387 Badger Building, Boston, Massachusetts, as of November 30, 1918.

The amounts of the income and expense accounts show the accumulation of income and expense since the books were last closed on December 31, 1917.

TRIAL BALANCE, NOVEMBER 30, 1918

Cash.....	\$4,612.61	
Petty Cash.....	125.00	
Accounts Receivable.....	10,971.40	
Notes Receivable.....	1,000.00	
Office Furniture and Equipment.....	2,862.00	
Law Library.....	1,000.00	
Clients Retainers in Suspense.....		\$1,900.00
Collections in Suspense.....		300.00
Henry M. Stickney, Capital.....		2,000.00
Henry M. Stickney, Drawings.....	18,000.00	
James A. Hinds, Drawings.....	16,500.00	
Philip W. Rollins, Drawings.....	10,300.00	
Joseph Chase, Drawings.....	7,200.00	
Fees—General.....		79,623.45
Annual Retainers.....		15,000.00
Income from Collections.....		1,316.65
Interest on Bank Balances.....		107.62
Salaries and Wages of Office Staff.....	16,600.00	
Rent of Offices.....	6,600.00	
Law Stationery.....	300.00	
Office Supplies.....	312.81	
Postage.....	142.50	
Telephone, Telegrams and Messenger Service.....	921.70	
Periodicals and Newspapers.....	37.00	
Traveling Expenses.....	275.00	
Federal and State Income Taxes.....	750.00	
Loss From Bad Accounts.....	1,737.70	
	<hr/>	<hr/>
	\$110,247.72	\$110,247.72

The open accounts in the Clients Ledger as of the same date are as follows:

LAWYERS' ACCOUNTS

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CLIENTS LEDGER

Raymond D. Allen, 76 Whitney Street, Boston.....	\$450.00
American Carpet Company, 29 School Street, Haverhill, Mass.....	350.00
Herbert L. Anderson, 276 Commerce Building, Boston.....	1,000.00
Boynton & Son, 47 Hampden Street, Worcester.....	228.00
Dill & Dyer, 412 Oliver Street, Boston.....	2,100.00
Louis J. Fierman, 64 New South Building, Springfield, Mass.....	660.00
Thomas Hardy, 76 Warren Street, Boston.....	472.60
George M. Hawes, 29 Summer Street, Brockton, Mass.....	200.00
James I. Hope, Hamilton Building, Boston.....	50.00
Matthew Kingman, 63 State Street, Lynn, Mass.....	1,000.00
Frank C. Langley & Company, 67 Wall Street, New York.....	1,500.00
John C. Mason, 49 King Street, Lawrence, Mass.....	100.00
Henry Miller & Company, 321 Eliot Street, Lowell.....	750.00
A. O. Northup Company, 29 Arbot Avenue, Brookline, Mass.....	152.75
Thomas Small, 41 Dunn Street, Needham, Mass.....	100.00
Morton G. Swift, 76 Harris Avenue, Pittsfield, Mass.....	25.00
Frank W. Finley, 287 Bond Street, Elmira, New York.....	47.00
Hermen E. Whilton, 72 Elm Street, Boston.....	386.05
Winn & Waldo, 47 Sixth Avenue, New York.....	400.00
William Wolfe, 290 Essex Building, Boston.....	1,000.00
	<u>\$10,971.40</u>

The open accounts in the Retainers Ledger as of the same date are as follows:

Mrs. Mary Bigelow, 27 Barrows Street, Needham, Mass.....	\$25
John E. Campbell, 38 State Street, Boston.....	200
Edmund J. Farrel, 67 Upton Road, Brookline, Mass.....	500
E. C. Hammond, 219 Dexter Building, Boston.....	100
Albert D. Higgins, 42 Green Street, Lowell, Mass.....	250
Raymond D. Kelley, 64 Greeley Avenue, Lynn, Mass.....	200
P. W. Livingston, 19 Parkway, Medford, Mass.....	200
Sullivan & Company, 27 Dewey Building, New York.....	200
R. J. Waldron, 40 Oliver Street, Boston.....	100
E. C. Wiseman, 64 Elm Street, Springfield, Mass.....	125
	<u>\$1,900</u>

The general ledger accounts included in the November trial balance given above, should be opened in the general ledger, four accounts to a page, and the balance of each account recorded thereunder, as of November 30.

The Clients Accounts receivable should each be entered on ledger cards and the balance recorded as of November 30. Likewise, accounts

with clients who have paid retainers should be open on ledger cards which represent the Retainers Ledger, the balance of each being entered as a credit to the account as of November 30.

TRANSACTIONS FOR DECEMBER

CASH BOOK

Record the following transactions in the Cash Book.

1. Balance, \$4,612.61.
2. Paid rent of offices for December, \$600.
2. Received bank statement for November, showing interest credited for the month, \$3.96.
3. Paid bill of Elwell-Baker Company, law stationers, for legal forms, \$124.50.
4. Received the following checks for legal services in payment of bills previously rendered:
A. O. Northup Company, \$152.75; American Carpet Company, \$350; John C. Mason, \$100; Henry Miller & Company, \$750; Thomas Hardy, \$472.60.
5. Received check from Trade Union League for \$100 as a retainer on a case undertaken by the firm.
7. Received cash, \$10 from a client in payment for consultation fee.
8. Received check from William Wolfe for \$500 to apply on account.
10. Collected \$200 from Winter & Son on a claim for \$350 of A. Stowell & Company. (Credit Collections in Suspense.)
12. Collected \$65.20 from Harold Wald in full of a claim of Marsh Bros.
14. Received check from Howard Supply Company for \$100 as a retainer on a case now pending.
15. Send Marsh Bros. a check for the amount of the claim collected for them less 20 per cent.
17. Send H. C. Spencer a check in settlement of a claim of \$175 which we collected November 25. Check should be for \$175, less our charge of 25 per cent.
20. Paid bill of Herald Publishing Company of \$25 for publishing legal notices connected with the case of a client, W. K. Renshaw. (To be charged to the client.)
21. Bought a vertical filing cabinet, \$65.
Legal services in drawing a will for a client paid in cash, \$50.
24. Paid by check accountant's fee of \$125 for services rendered on the case of a client, the Arnold Construction Company.

25. Received check from Matthew Kingman to apply on account, \$250.

26. Collected remainder of claim of A. Stowell and Company amounting to \$150.

28. Received checks from the following clients: Dill & Dyer, \$1,000; James I. Hope, \$50; Boynton & Son, \$228; Louis J. Fierman, \$500.

29. Sent check to A. Stowell & Company in settlement of collections made for them less 20 per cent.

30. The following companies for which the firm serves as general counsel sent checks for their annual retainers; Commonwealth Railway Company, \$5,000; Harris & Ewing, \$1,000.

30. Partners' drawings: Stickney, \$1,000; Hinds, \$300; Rollins, \$500; Chase, \$1,000. Office pay roll for the month, \$1,512.75.

31. Pay the following bills: Telephone, \$75; newspapers, \$3; American District Telegraph, messenger service, \$16.50; rent of safety deposit box, \$50 (new account); electricity, \$25; office supplies, \$26.80; towel supply, \$10; Pilgrim Agency, subscription to law periodicals, \$20; legal books, \$15.

The clerk in charge of the petty cash submits a summary of the month's disbursements which shows the following charges: Office supplies, \$9.05; postage, \$40; traveling expense, \$36.50; entertaining, \$12.50; office expense—general, \$12.10; Raymond Moore, \$6.70. A check is drawn for the total of the above items, \$116.85, and as an entry therefor, the above accounts are charged. The check is cashed and the currency turned over to the cashier.

Balance the Cash Book and bring down the balance under date of January 1, 1919.

PETTY CASH BOOK

Record the following disbursements in the Petty Cash Book: The full amount of the fund, \$125, was on hand December 1.

December 1, carbon paper and stencils, \$5; 2d, postage, \$20; 3d, mileage book, \$20; 5th, railroad fare, \$4.50; 10th, entertaining, \$12.50; 11th cleaning offices, \$8.50; expenses to be charged to a client, Raymond Moore, \$6.70; 15th, express, \$2; 18th, office supplies, \$1.25; 22d, postage, \$10; 28th, express, \$1.60; 29th, traveling expenses, \$12; 31st, postage, \$10; 31st, office supplies, \$2.80.

Close the Petty Cash book and append a summary of disbursements for the month showing the proper ledger accounts to be charged; the disbursements for cleaning office, and express should be charged to Office

Expense—General. Bring down the balance as of January 1, and enter thereunder the currency received to restore the fund to its original amount.

BILL JOURNAL

Record the following entries in the Bill Journal. Number bills serially from 986 on.

- Dec. 2. Henry W. Savage, 184 Tremont Street, City, fee of \$500.
5. Mrs. Mary Bigelow, 27 Barrows Street, Needham, fee of \$150; retainer already paid which is to apply on the bill, \$25.
7. The Rutland Manufacturing Company, Rutland, Vermont, fee of \$300.
9. The Conant-Lee Company, 212 Boylston Street, fee, \$75.
12. Albert D. Higgins, 42 Green Street, Lowell, fee of \$600; retainer paid, \$250.
15. John E. Campbell, 38 State Street, City, fee, \$1,000; retainer, \$200.
20. Charles N. Clark, Amherst, Mass, fee, \$276.50.
22. A. J. Pierson, 312 Columbus Ave., City, fee, \$100.
25. J. E. Thomas, 62 Arbor Street, Worcester, fee, \$625.
28. E. C. Wiseman, 64 Elm Street, Springfield, Mass., fee, \$400; retainer, \$125.
30. Raymond D. Kelley, 64 Greely Avenue, Lynn, fee, \$312.50; retainer, \$200.
31. Sullivan and Company, 27 Dewey Building, New York, fee, \$475; retainer, \$200.

Foot all columns and close the book preparatory to posting.

GENERAL JOURNAL

Make adjusting entries for the following: Law stationery on hand is inventoried at \$250.

A Reserve for Depreciation of Office Equipment is created for the first time, and 10 per cent. of the cost of the equipment on hand January 1, 1918 (\$2,500), is now credited to that account. (Debit Depreciation of Office Equipment and Credit Reserve for Depreciation of Office Equipment.)

The following accounts are to be written off as there seems to be no possible chance of collecting them: George M. Hawes, \$200; Thomas Small, \$100; Morton G. Swift, \$25; Frank W. Finley, \$47.

By the terms of the special agreement, entered into when the firm was organized each partner is given the following annual salary allowance: Stickney, \$20,000; Hinds, \$18,000; Rollins, \$12,000; Chase, \$8,000. (Debit Salary of Partners and credit each partner's Drawing account.) Drawings during the year are made against this allowance. Net earnings in excess of this allowance are shared as follows: Stickney, 40 per cent., Hinds, 20 per cent.; Rollins, 20 per cent.; Chase, 20 per cent.

WORK REQUIRED IN CLOSING

(a) Do all posting for December to the General Ledger, Clients Ledger and Retainers Ledger. Open any necessary new accounts.

(b) Take a trial balance from the General Ledger, and draw off a list of the balances of the open accounts in both the Clients and the Retainers Ledgers to see that they are in agreement with their Controlling accounts.

(c) Statement of Income and Expense, January 1, 1918–December 31, 1918. (Show each partner's share of the net earnings.)

(d) Balance Sheet, December 31, 1918. (Any overdrawn or underdrawn salary allowance should be shown as an asset or a liability.)

(e) Make closing entries, post them, balance and close general ledger accounts, and take a proof trial balance.

CHAPTER XVII

PHYSICIANS' ACCOUNTS

The average physician is a poor business man and is usually careless and unsystematic in his attention to financial affairs, due mainly to lack of time and of interest in such matters. Many physicians, undertake to keep their own books, send out their own bills, write their own letters and look after their business affairs in general, with the result that all too frequently the books are badly kept, the bills are not sent out on time, the letters are neglected and business affairs become more or less tangled and involved. Nevertheless, a distinct improvement in such things may be observed in recent years due to the universal interest in better business methods; to the general raising of professional standards; to the tendency toward specialization in medicine as in other things; to the agitation of such matters through professional journals and societies, and to the rigid requirements of the Federal and State income tax laws. One result of the tendency on the part of physicians to adopt improved business methods is that they are coming more and more to give up entirely the clerical work involved in keeping their accounts and in attending to their business affairs, and employ instead a trained secretary or office assistant to do such work.

The duties of such a person vary, but usually they consist of attending to the correspondence, sending out bills, keeping the books, answering the telephone and making appointments. With this work may sometimes be combined the duties of an office nurse, although in many cases a nurse is employed in addition to a secretary. Frequently one person may render service of this character to two or more physicians, perhaps in the same office building, neither of whom has sufficient secretarial work to keep one person busy.

It is usually the case when a person is engaged for a secretarial position, which includes the keeping of the books, that the accounts will be found to be in a confused and incomplete state and that the method which the physician has undertaken to carry out lacks entirely the essentials of a simple, workable system. The secretary in such circumstances is expected to bring order out of chaos, systematize the work throughout, and devise a satisfactory system for keeping accounts. In such cases she must as a

rule rely upon her own knowledge of such things, as she cannot expect, and as a matter of fact has no right to expect, much assistance from her employer. One thing that she may be sure of is frequent reminders from him that all he wants is something exceedingly simple, some method that will take little time, and which he can understand and operate himself if he is obliged to do so.

While the system should in all cases be as simple as possible, yet it must be thoroughly practical and complete and should be based upon an appropriate classification of income and expense. It should give an accurate record of cash receipts and disbursements and should enable the secretary to prepare at stated intervals statements showing the income, expenses, and the state of the physician's finances.

The problems confronting the secretary who desires to lay out a method of keeping the accounts of a physician are not difficult ones and as a rule the volume of clerical work is limited. In the case of a physician with a small practice, a single entry system that would give an accounting of all cash receipts and disbursements and provide an up to date and accurate record of patient's accounts would be entirely satisfactory. In most cases, however, a simple double entry system would be more satisfactory, would give certain checks upon the accuracy of the work, as well as more details regarding the physician's finances. At the same time, such a method would entail little, if any, additional work. If a double entry system were desired, it would, however, be necessary that the secretary have some training or experience in this method.

A classification of the general accounts adaptable to a particular case forms the basis of any system which may be installed. While such classification would vary, due to circumstances associated with each man's practice, yet the following list of accounts may be regarded as somewhat typical:

GENERAL LEDGER ACCOUNTS

ASSETS:

- Cash
- Petty Cash
- Accounts Receivable
- Notes Receivable
- Office Equipment—General
- Electrical Equipment
- Instruments and Surgical Equipment
- Library
- Automobile
- Medicine and Medical Supplies on Hand

LIABILITIES AND CAPITAL:

- Accounts Payable
- Reserve for Depreciation of Equipment
- Reserve for Depreciation of Automobile
- Capital or Investment Account
- Drawing Account

INCOME ACCOUNTS:

- Income from General Practice
- Income from Surgery
- Income from Electrical Work
- Miscellaneous Professional Income
- Interest on Bank Balance

EXPENSE ACCOUNTS:

- Rent of Offices
- Secretarial Expense
- Automobile Expense
- Office Expense—General
- Office Expense—Professional
- Medical Supplies Used
- Office Supplies Used
- Dues and Subscriptions
- Periodicals
- Loss on Uncollectible Accounts
- Depreciation of Equipment

It does not seem necessary to define the function of the above accounts as most of them are explained and illustrated in other parts of the text. The use of certain ones which are entirely peculiar to physicians' accounts, such as the income accounts, and certain expense accounts, is clearly indicated by their titles.

It is questionable whether reserve accounts with depreciation would be practicable, inasmuch as a somewhat technical phase of accounting is introduced thereby. A method less sound in theory, but no doubt less confusing in practice to a secretary keeping such books, would be to credit the estimated depreciation direct to the asset account; the corresponding debit in either case would be to Depreciation of Equipment for the estimated depreciation thereon and to Automobile Expense for the estimated depreciation on the automobile.

Depreciation on equipment of any value owned by the physician should be brought into the accounts not only because it is an element of expense which should be considered for its own sake, but because it is an allowable deduction in estimating the income subject to taxation.

Losses due to uncollectible accounts are usually very heavy, particularly in the case of physicians engaged in general practice, and

often run as high as forty or fifty per cent. of the charges placed upon the books. A Reserve for Bad Accounts would probably not be advisable, however, in most cases, due to difficulty of fixing a basis for estimating losses from this source. At the close of each year, the accounts with patients should be carefully inspected and all which are definitely known to be bad should be charged off.

In all probability all expense bills and bills for supplies would be paid promptly each month. If this were done, no accounts would be kept with such creditors and there would correspondingly be no need for the Accounts Payable account.

Books of Account.—The books of account recommended for use in a simple but complete double entry system would be a General Journal, Patients Charge Journal, Cash Book, Petty Cash Book, General Ledger and Patients Ledger, and as auxiliary books, an Appointment Book, a Record of Daily Calls and Visits, and a Trial Balance Book.

Appointment Book.—A standard diary or a special diary for physicians would be the most satisfactory form of book for this purpose. When an appointment is made by telephone or in person, a memorandum is made in the Appointment Book.

A list of calls and appointments should be drawn from this book and given to the physician each day as he starts on his rounds. If instead of a general practice, the physician as a rule sees patients only at his office and by appointment, such a list if prepared would be placed on his desk each morning. To the list of calls or appointments given him, the physician should add other calls that he makes, so that when the complete list is returned daily to the secretary it provides the original record from which charges are made at regular intervals to the patients' accounts.

As a rule, the name, address and other data is obtained from each new office patient. As the doctor sees all office patients, he should enter the name, nature of treatment, etc., on a slip of paper, which slips are later collected by the secretary and proper entries made on some summary of daily professional service rendered.

Record of Daily Calls (Form 19).—It is desirable that the data for making charges to the accounts kept with patients be assembled in such a manner as will reduce to a minimum the possibility of mistake and the clerical work of posting to the Patients Ledger. It is apparent that some method of assembling daily visits and office calls must be adopted

in such a way that only one posting a month to the account of each patient is necessary, rather than the impractical method frequently followed of making daily postings to such accounts.

To this end, a subsidiary card record of patients giving a record of daily calls and visits may be used to good advantage.

NAME _____		CHARGE TO _____																															
ADDRESS _____																																	
MONTH	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	TOTALS	
																																O.C.	H.C.
JAN.																																	
FEB.																																	
MAR.																																	
APR.																																	
MAY																																	
JUNE																																	
JULY																																	
AUG.																																	
SEPT.																																	
OCT.																																	
NOV.																																	
DEC.																																	

FORM 19.—RECORD OF DAILY CALLS.

From the daily lists of visits and calls the secretary checks on this card under the proper month and date, the service rendered. If it is desired to keep house calls and office calls separate, the letter *H* or *O* could be entered in its proper square. At the close of each month the total calls for the month is found by adding the entries on the horizontal

line for the month, which total is extended in the column on the right margin of the card. It is apparent that a separate card would be required for each year.

[illegible]

FORM 20.—PATIENTS CHARGE JOURNAL.

No entry need be made for calls which are paid for in cash at the time.

At the termination of the calls or visits, the card may be removed to an inactive file.

Patients Charge Journal (Form 20).—This book forms a summary of all charges to be placed upon the books for each month and provides in addition any desired classification of income.

Entries are made in this book at the time the bills are made out, the classification and charges being based upon verbal instructions given by the doctor or upon the explanations appearing on the Patients Record of Daily Calls and Visits. The purpose of this classification is to show the amount of income earned by each branch of his practice.

Many physicians render bills quarterly instead of monthly, and in this case, the entries in this book and the postings from this book would be quarterly instead of monthly.

As a general rule, a physician will not render a bill until his services on a particular case have terminated, and as a consequence, entries in this book would not show professional fees earned to the end of the month if calls are still being made.

The amount of each bill is entered in the Accounts Receivable column as a debit and is also entered in the proper income column as a credit. The debit to each patient's account is posted to the debit of the proper account, as soon as the entry is made; at the end of the month or quarter, the footing of the Accounts Receivable account is posted to the debit of that account in the general ledger while the footings of all other columns are posted to the credit of the proper accounts.

It is evident that the journal is self-balancing, the sum of all credit footings at any time being exactly equal to the footing of the debit column.

Patients Ledger.—Either a card or a loose leaf ledger of stock ruling may be used for patients' accounts. Perhaps under most circumstances a card ledger is preferable because there would be very few postings to most accounts, and hence a card may be used of a smaller size than would be usual in a loose leaf ledger.

Cash Book.—Cash receipts are entered on the debit side of the Cash Book and regular deposits are made of all cash received from whatever source.

The debit side of the Cash Book should contain columns for Accounts Receivable, Sundry Credits and Net Receipts, with any additional columns which might be necessary in a particular case.

The credit side of the Cash Book may contain columns for Office Expense, Sundry Debits and Net Payments. Columns may also be added for Secretarial Expense or Automobile Expense if the number of entries would justify it.

All disbursements are by check except those made from the Petty Cash Fund described hereafter, and it would be well to provide a column to the left of the first money column for Check Number. Cash should be proved daily.

The Cash Book should be kept open at the close of each month until all the bills for that month have come in, in order that such bills may be paid and entered in the month in which they were incurred.

The Cash Book is balanced at the close of each month and all postings made therefrom to the general ledger. Credit postings, to patients' accounts for checks or currency received during the month in payment of their bills, should be made promptly upon receipt of the money.

Petty Cash Book.—The petty cash should be handled by the imprest method (see p. 137) which consists in entirely segregating from the general cash a certain fund estimated to be sufficient to meet the petty expenditures for a month. A check would be drawn for this amount, at the time of creating the fund, and entered in the Cash Book as a debit to Petty Cash. A separate Petty Cash Book should be provided in which all disbursements from the fund would be entered. A signed voucher or receipt should be procured to support every disbursement. As a proof of accuracy in handling the cash, the cash on hand plus the total of all signed vouchers should exactly equal the amount of the fund.

The fund should be replenished at the close of each month. To do this, the disbursements for the month as shown by the entries in the Petty Cash Book, are summarized and a check drawn for an amount equal to the amount disbursed. An entry for this check is made in the general cash book, debiting the several accounts which should be charged according to the summary prepared.

The Petty Cash Book may be a small, inexpensive stock cash book, or a special book may be designed. Under most circumstances, it would not be worth while to install a special book. Should such a book be thought desirable, special columns should be provided for the accounts for which currency is most frequently disbursed, such as Office Expense, Automobile Expense, Secretarial Expense.

The general ledger, the journal and the trial balance book may be small and inexpensive stock books such as may be procured at any stationers.

Monthly or Quarterly Bill.—Most physicians render a bill reading: "For Professional Services," the calls or visits not being itemized unless such a bill is asked for. This reduces greatly the clerical work of making out the bills and is as a rule satisfactory to patients.

The bills should be sent out promptly and at regular intervals as in this way the patient is given an impression of business-like methods and collections are sure to be much more satisfactory.

To anyone who has made a careful study of the principles underlying physicians' accounts, it will be apparent that the only phase of the work which presents any particular difficulty is that which has to do with the charging and billing of patients. The method by which such charges are accumulated, recorded on the books, and posted to the patients' accounts should in every case be given careful study, and an effort made to so plan the work as to insure accuracy in making such charges and at the same time to reduce the clerical work to a minimum.

Certain manufacturers of card and loose leaf systems have stock cards or sheets designed for the keeping of physicians' and dentists' accounts, particularly the accounts with patients, which may be helpful in planning the system.

DENTISTS' ACCOUNTS

The outline which has been presented as a method of keeping physicians' accounts, would apply equally well to the accounts of a dentist. In most cases, it will be found that dentists keep a simple single entry system, consisting of a record of patients' accounts and of cash receipts and disbursements. This could easily be changed to double entry if it is thought advisable to do so, with the result that a complete account of all income and expense, properly classified, would be obtained, and with the finances more accurately shown.

Losses from uncollectible accounts are not so heavy as in the case of physicians, due mainly to the fact that dentists' bills are now regarded by most families as regular yearly expenses which are expected and planned for.

EXERCISES FOR THE STUDENT

1. From the classified list on pages 167 and 168 write up the functions of the accounts peculiar to physicians' accounts.
2. Design a cash book which will meet in a general way the requirements of a physician's office. Record therein several imaginary transactions, and balance the cash book as of the end of the month.
3. Write a follow-up letter to be sent to all patients whose accounts are some months overdue. The letter must be courteous and must conform to professional ethics, but must at the same time make a strong appeal for payment.
4. Set up the list of general ledger accounts on pages 167 and 168 in the form of a trial balance, supply imaginary figures, and prepare therefrom a Statement of Income and Expense, Balance Sheet and Closing Entries.

5. Outline a system of filing paid bills and canceled checks for use in a physician's office.

6. Most physicians have a number of charity patients whom they attend without any expectation of being paid and without even going to the trouble of sending a bill; in addition services are often rendered to other physicians or their families for which only a nominal charge, or no charge at all, is made. It may, however, be desirable to show such services rendered as part of the earnings for the year. How would you provide for this in the accounts?

7. At the close of the calendar year it is decided to charge off the accounts of some forty patients which are known to be uncollectible. State explicitly what entry would be made and how it would be posted.

CHAPTER XVIII

THE ACCOUNTS OF PRIVATE SCHOOLS AND COLLEGES

The accounting methods adaptable to private schools and to colleges have many things in common, the chief differences being in minor details, in the volume of transactions, and in the form of organization.

While a college is established primarily to offer an academic or a technical education to its students at a moderate cost, a private school must be so managed and conducted as to show a profit to its owners or proprietors. While a college is usually a non-stock corporation, a private school may be owned by a sole proprietor, may be conducted as a partnership, or it may be organized as a stock corporation. While a college must, to a considerable extent, depend upon its endowment or upon state or local aid to provide the necessary income for meeting the expenses of instruction and maintenance, a private school is seldom endowed and must meet its entire expenses from tuition and other fees charged its pupils.

Regardless of these differences, however, it is of great importance that a complete system of accounts be employed in both types of institutions which will give a detailed classification of income and expense, which will show the exact cost of the various activities of the institution, and which will account for the assets, liabilities and ownership interest.

Furthermore, it is essential that the accounting system be so planned that a detailed report may be prepared, showing the income and expenses arising from all activities of the institution, and which will set forth a clear statement of the financial condition thereof.

In order that certain minor differences in the classification of accounts and in the books of original entry may be brought out more clearly, the methods adaptable to each type of institution will now be taken up in turn.

The classification of general ledger accounts will depend to a great extent upon the nature of the school, its size, location and organization, the extent of its curriculum, and the breadth of its activities. Many private boarding schools have extensive grounds and buildings, athletic fields, etc., and own productive land which supplies the table with a certain quantity of the vegetables, milk, butter, eggs and fruit needed;

contrasted with this, other schools, such as a private day school, may own a single building or may occupy rented quarters. These varying conditions would affect both the classification of accounts and the system of bookkeeping that would be practicable.

Naturally, the most serious problems from the standpoint of administration and accounting arise in the private boarding school, and the following discussion will have particular reference to such institutions. In schools of this character, it is strongly advised that the accounts be kept by double entry, for the reasons that have been given repeatedly in discussions of other types of accounts.

GENERAL LEDGER ACCOUNTS

The following classification of general ledger accounts, while not exhaustive, includes the more common accounts peculiar to this type of institution.

ASSETS

PROPERTY AND EQUIPMENT:

- Land
- Land—Productive
- Buildings (separate account with each, including dormitories, gymnasium, garage, heating plant, laundry, etc.)
- Library (books, bulletins, etc.)
- Works of Art (statuary, paintings, etc.)
- Furniture and Furnishings (separate account with furniture and furnishings for each building)
- Office Equipment
- Gymnasium Equipment
- Physics Laboratory Equipment
- Chemical Laboratory Equipment
- Kitchen and Dining Room Equipment
- Laundry Equipment
- Library Equipment
- House Linen
- Tools and Implements

CURRENT ASSETS:

- Cash
- Petty Cash—Office
- Petty Cash—House
- Cash—Pupils' Deposits
- Accounts Receivable
- Notes Receivable

INVENTORIES:

Office Supplies
Book Store (text-books, stationery and supplies)
Food Supplies
Fuel
Laundry Supplies
Garage Supplies
Linen

INVESTMENTS:

Securities Owned
Building Fund Investment
Other Fund Investments

DEFERRED ITEMS:

Insurance Premiums Prepaid
Interest Prepaid on Mortgage Payable

LIABILITIES AND CAPITAL**FIXED:**

Mortgage Payable

CURRENT:

Notes Payable
Accounts or Vouchers Payable
Pupils' Deposits
Registration Fees Paid in Advance
Taxes Accrued
Interest Accrued on Notes Payable
Pay Roll Accrued

ENDOWMENTS OR FUNDS:

Building Fund (or any other special endowment or fund which may exist)

RESERVE ACCOUNTS:

Reserve for Depreciation of Buildings.
Reserve for Depreciation of Equipment.
Reserve for Doubtful Accounts (not likely to be necessary)

CAPITAL:

A capital account with the proprietor or proprietors of the school or if a corporation, an account with capital stock.
A Drawing or Current Account with the proprietor or proprietors (separate one for each)

INCOME**PUPILS:**

Tuition of Boarding Pupils
Tuition of Day Pupils
Fees for Special Courses (separate accounts with each, if desired)
Registration Fees
Laboratory Fees
Locker Rentals
Pupils Laundry
Tutoring
Vacation Board

Miscellaneous Income
Interest on Bank Balance
Discounts on Purchases

TRADING:

Book and Supply Store Sales

EXPENSE**INSTRUCTION:**

Salaries of Instructors
Special Instructors' Fees
School Room Supplies
Laboratory Expenses
Rent of Pianos
Commencement Expense
Pew Rent
Receptions and Teas
Pupils Publication

HOUSE:

House Wages
Laundry Wages
House and Faculty Laundry
Laundry Expenses
Groceries and Provisions
Repairs and Renewals of Equipment (separate account with each)
Depreciation of Equipment
Fuel and Lighting (separate account for each building, if desired)

TRADING:

Book and Supply Store Purchases
Expenses of Book and Supply Store

BUILDINGS AND GROUNDS:

Maintenance of Buildings (separate account with each)
Wages of Male Employees
Interest on Real Estate Mortgage
Replacements of Tools and Implements
Depreciation of Buildings
Automobile Expense
Fuel and Lighting

GENERAL ADMINISTRATIVE:

Wages of Office Staff
Printing, Postage and Stationery
Telephone and Telegraph
Publicity Expense
Legal Expense
Federal Income Tax
Interest on Notes Payable
Uncollectible Accounts
Miscellaneous

PAY ROLL (Clearing account)

INCOME AND EXPENSE (Closing account)

The purpose of most of the above accounts is indicated by their titles and it is not necessary to define their function in detail. Certain of the accounts will, however, be discussed later in connection with the methods and books which involve their use.

BOOKS AND FORMS

As a basis for the consideration of accounting methods which would be both simple and practical, the following list of books and forms adaptable to the needs of a private school, is given. It must be understood, however, that in the case of many such schools, all of them would not be practicable, while in other instances, the system would need to be still more extensive.

PURCHASE RECORDS:

- Requisition Blank
- Purchase Order Blank
- Voucher or Invoice Register
- Voucher Jacket
- Analysis of Maintenance Accounts

CASH RECORDS:

- Cash Receipts Book
- Check Register
- Petty Cash Book—House
- Petty Cash Book—Office
- Petty Cash Voucher
- Pupils' Deposit Cash Book
- Pupils' Deposit Slip
- Voucher Check
- Duplicate Receipt Book

BILLING RECORDS:

- Pupils Charge Slip
- Bill or Charge Register
- Monthly or Quarterly Statement

LEDGERS:

- General Ledger
- Tuition and Charge Ledger
- Deposit Ledger

GENERAL BOOKS:

- General Journal
- Salary Book
- Pay Roll Book
- Perpetual Inventory of Furniture and Equipment.

The buying of all food supplies, furniture, furnishings, equipment, fuel, office supplies, book and supply store stock, etc., and the incurring

of the numerous operating expenses of the school, represents a responsible part of the school administration. By systematizing this work and by adopting a well-planned method of handling and recording purchase orders and invoices, much may be accomplished in reducing waste, avoiding extravagances, fixing responsibility, and insuring accuracy in the accounts.

(REQUISITION BLANK)		No. _____
MISS CHAPIN'S SCHOOL FOR GIRLS		
REQUISITION FOR SUPPLIES, EQUIPMENT, OR SERVICE		
DATE _____	TO BE FILLED IN BY PURCHASING AGENT	
DEPARTMENT _____	DATE ORDERED _____	
DATE WANTED _____	OF WHOM ORDERED _____	
REQUIRED BY _____	PRICE OR ESTIMATE _____	
APPROVED BY _____	DATE RECEIVED _____	
DESCRIPTION		

FORM 21.—REQUISITION BLANK.

As a rule, the principal or the proprietor of the school attends to the buying, or assumes responsibility therefor. In the larger schools, however, some of this work would of necessity be delegated to others. For example, the housekeeper may do all buying for the kitchen, laundry and table; the assistant principal, or the secretary, the buying for the book and supply store, minor class-room supplies and equipment, leaving to the principal only the buying of property, permanent equipment and furnishings, placing the coal bill, insurance, etc.

Requisitions (Form 21).—While no such system would be necessary in the smaller schools, in the larger ones, requisition blanks should be supplied to the different matrons and housekeepers, head instructors, head janitor, and to the officials of the school. Whenever a need arises anywhere in the school for equipment, furnishings, or supplies, a requisition should be made out and addressed to the principal or the one responsible for the buying of the particular goods or supplies needed. This requisition should be prepared in duplicate, the original going to the principal's office, the duplicate being retained by the department which issued it.

(Purchase Order)	
No. _____	MISS CHAPIN'S SCHOOL FOR GIRLS
<div style="text-align: right; margin-right: 100px;">Ardmore, Pa. _____ 19____</div>	
To _____ _____	
Please deliver the following and charge to our account	
_____ _____ _____ _____	
When Wanted _____	Deliver at _____
Approved _____	_____
Principal	Purchasing Agent

FORM 22.—PURCHASE ORDER.

Purchase Order (Form 22).—After the principal has satisfied herself that the need exists for the equipment or supplies requisitioned, a purchase order is made out and addressed to the proper dealer. This purchase order may be issued on the business stationery used by the school, or specially printed purchase orders may be used; the latter method is more businesslike. These orders should be issued both for the purchase of equipment and supplies, and for service charges and expense items of any consequence such as requests for repair work, new construction, clerical service, etc. Even though the order be first delivered in person or given over the telephone, it should later be confirmed by an order issued in writing.

These orders are made out in duplicate the original being sent to the dealer and the duplicate filed in an Unfilled Order File. Later when the

goods are delivered or the service completed, the duplicate is transferred to a Completed Orders File.

Invoices for purchases, bills for services, and monthly statements, should all go to the bookkeeper's office and be verified by her or by some other responsible person. She should satisfy herself that the goods have arrived and are in good condition, or that the services have been rendered, and that the prices, extensions, and addition are correct. This verification should be so indicated on the invoice either by a rubber stamp impression being placed upon it, or in some other manner that will fix responsibility for such work.

Voucher System.—There should be some form of book of original entry adopted as a record of purchases and expenses in order that all bills and invoices may be recorded in the month in which they are incurred, and that a proper classification of all purchases and expenses may be shown.

Probably the most satisfactory form of record where the volume of purchases would justify it, is a Voucher Register used in connection with what is often called the Voucher System of Accounts.

When the volume of transactions warrants its use, this system provides altogether the most orderly and systematic method of recording bills and invoices and in obtaining authorization for their payment.

When an invoice is received, a Voucher Jacket or Voucher (Forms 23 and 24) is filled out showing on its face an abstract of the bill, the name of the Creditor, the date, etc. The reverse side shows the distribution of the invoice to the account or accounts to be charged; and data regarding date of payment, check number and number of voucher. The face contains spaces for the signature of the person responsible for the verification and classification of the invoice, and for the signature of the principal when later on payment of the voucher is authorized. The back shows the classification of accounts corresponding to the classification in the Voucher Register and also contains spaces for the number of the voucher, record of payment, etc.

After the voucher jacket has been made out, the invoice is attached thereto and recorded in the Voucher Register (Form 25), the effect of the entry being to credit Vouchers, or Accounts Payable and debit the proper purchase, asset or expense account or accounts. All postings from this book are by totals at the end of the month, except the items in the Sundry Debits column which must be posted individually.

After the voucher has been recorded in the Voucher Register it is placed in some suitable file for Unpaid Vouchers. Later, when payment has

(VOUCHER JACKET REVERSE)			
No. _____	AMOUNT _____	DISTRIBUTION	AMOUNT
MONTH OF _____		AUTOMOBILE EXPENSE PRINTING, POSTAGE STAT'Y TELEPHONE & TELEGRAPH PUBLICTY EXPENSE LIBRARY " OFFICE EQUIPMENT GYMNASIUM " LAUNDRY " HOUSE LINEN SUNDRY DEBITS (SERAPATE ACCOUNT WITH EACH)	
IN FAVOR OF _____			
PAID			
DATE _____ CHECK NO. _____			
AMOUNT OF CHECK \$ _____			
DISCOUNT \$ _____			
AMOUNT OF VOUCHER \$ _____			
DISTRIBUTION		AMOUNT	
PAYROLL			
SCHOOL ROOM SUPPLIES			
LABORATORY EXPENSE			
LAUNDRY "			
GROCERIES & PROVISIONS			
REPAIRS, RENEWALS TO EQUIP'T.			
MAINTENANCE OF BUILDINGS			
(SERAPATE ACCOUNT WITH EACH)			
TOTAL		TOTAL	

FORM 24.—VOUCHER JACKET REVERSE.

been authorized and the check drawn, the payment is indicated on the back of the voucher, a record of payment made in the "Paid" column of the Voucher Register, the proper entry made in the Cash Book, and the voucher removed from the Unpaid file to a Paid Vouchers File.

The Voucher Register should be kept open at the end of the month until all current bills or invoices have been received. The book thus becomes a register of every bill or invoice of any description rendered to the institution, every disbursement of cash being supported by a properly approved voucher, the distribution of which shows the proper charge for such disbursement.

After the register is closed, the total of the Vouchers Payable column should equal the totals of all other columns. The Vouchers Payable column is posted to the credit of that account in the general ledger, while the footings of all other columns are posted to the debit of their respective accounts with the exception of the Sundry Debits column the items in which must be posted separately to the debit of the accounts named.

The amount of unpaid bills at the close of the month after all postings have been made is shown by the credit balance of the Vouchers Payable account. This balance should agree with the total of the unpaid vouchers in the Unpaid Voucher File and should also agree with the Unpaid items in the Voucher Register.

The numbers and titles of the debit or distribution columns in the Voucher Register depend upon the classification of accounts and upon the volume of transactions. A separate column should be provided for those accounts which receive regularly, say two or more charges each month. Accounts receiving less frequent charges are taken care of in the section for Sundry Debits.

Cash Receipts Book.—All cash received from whatever source is recorded in the Cash Receipts Book as a credit to the proper account. Regular deposits should be made of all receipts, the total deposits for the month as shown by the bank statement being exactly equal to the total receipts as shown by the cash book. The cash for incidental expenditures which must for convenience be made in currency is provided through a Petty Cash Fund.

The Cash Receipts Book should contain money columns for Accounts Receivable, Book and Supply Store Sales, Sundry Credits and Net Receipts, with any additional columns which the activities of the school might warrant.

The closing of the book at the end of the month and the postings therefrom present no difficulties.

Check Register (Form 26).—All cash disbursed is by check except such expenditures as must of necessity be made in currency and which are made from a separate fund. The Cash Disbursements book becomes therefore a register of all checks issued by the school. When the Voucher System is used, every check issued is in payment of a duly authorized voucher which has been recorded in the Voucher Register and distributed to the proper account. For this reason no distribution columns are necessary in the Check Register, every entry being a debit to Vouchers Payable.

The only postings from the Check Register are of monthly totals; at the close of the month, the footing of the Vouchers Payable column is posted to the debit of that account; Discounts on Purchases, to the credit of that account, and Net Payments, to the credit of Cash.

If the Voucher System is not used, the Cash Disbursements book becomes the book in which the original entry is made for purchases, expense bills, pay rolls, etc., and instead of the simple book here illustrated, it would be necessary for special columns to be provided in which to make a proper classification of all payments in order that postings may be reduced to the minimum.

When a Check Register is used for cash disbursements, the work of filling out check stubs becomes unnecessary as all information relative to the checks issued is contained in this book and the balance on deposit is known at the close of each day or at any time during the day that it is desired. The daily deposit is entered in the Deposits column, and the total of checks issued during the day is entered in the Checks column. The balance at the close of the day is then found and entered in the Balance column.

The practice of sending out bills and invoices with the checks issued in payment thereof in order that they may be receipted, has been almost abandoned. Additional clerical work is caused thereby, and many such bills and invoices never return, thus making the files of paid bills and invoices incomplete. In cases where the bills are not sent back to be receipted, it is customary to use a special form of check which contains blanks in which to fill in a memorandum of the invoice or voucher in payment of which the check is issued. Such a check, is commonly called a Voucher Check, as after it has been endorsed and cashed it serves as a legal receipt of the creditor for the payment of the bill.

Pupils Deposits.—Many private schools act as a depository for the current funds or allowances advanced to the pupils by their parents. In many respects such a service resembles that performed by a commercial bank. The money is received on deposit, either from the pupil or directly

from the parent, and is subject to withdrawal at any time upon presentation of a written order. Inasmuch as the school serves merely as the trustee of such funds, and is directly liable therefor to the parent or the pupil, such deposits should be kept entirely separate from the general cash. This is accomplished in the most satisfactory manner by carrying such funds in a separate bank account, and by keeping all the records pertaining to deposits, withdrawals, etc., entirely separate from the general books of account.

These records should consist of the following:

Deposit Slip

Withdrawal Slip

Cash Book—Record of Deposits and Withdrawals

Pupils Deposits Ledger

Check Book

If the school desires to do so, the transactions with the pupil may be made to correspond closely to the routine of a commercial bank. At the time of making the first deposit, the pupil could be supplied with a pad of deposit tickets, a pass book and a check book. The deposit slip would be made out by the pupil and passed to the cashier or bursar with the money, the amount deposited would be entered in the pass book, thus serving as the pupil's receipt, and the pupil in turn would enter the amount of the deposit on the stub of her check book. When it is desired to withdraw money, a check would be made out, a proper memorandum made on the stub, and the check presented to the bursar or cashier to be cashed. Once a month or at any other time which the pupil may desire, the pass book would be left at the cashier's office to be balanced.

While this method entails more work on the part of the school, it is of distinct educational value to the pupil as she thus gains valuable experience in banking practice and is encouraged to be more business-like and systematic in attending to her personal finances. This is the side of a young person's education which is often neglected by the preparatory school.

A method which entails somewhat less work on the part of the school consists in issuing a receipt to the pupil for all money accepted on deposit. These receipts should be printed in duplicate, numbered serially, and bound three on a page, in what becomes a Duplicate Receipt Book (Form 27). The original is perforated and when filled out, is removed and given to the pupil, while the duplicate remains in the book.

At the end of the day, all money received on deposit as shown by the duplicate receipts is entered in the Deposits Cash Book as a credit to the accounts of the individual pupils.

DEPOSIT RECEIPT

No. _____

ARDMORE, PA. _____ 19____

RECEIVED OF _____

THE SUM OF _____ DOLLARS

FOR DEPOSIT PAYABLE ON DEMAND

\$ _____

MISS CHAPIN'S SCHOOL FOR GIRLS

BY _____ CASHIER

Form 27.—Deposit Receipt.

WITHDRAWAL SLIP	
<p>No. _____</p>	<p style="text-align: center;">RECEIVED OF MISS CHAPIN'S SCHOOL FOR GIRLS</p> <p>THE SUM OF _____ DOLLARS</p> <p>TO BE CHARGED AGAINST MY DEPOSIT ACCOUNT</p> <p>\$ _____ SIGNED _____</p> <p>OLD BALANCE \$ _____ NOW WITHDRAWN \$ _____ PRESENT BALANCE \$ _____</p>

FORM 28.—WITHDRAWAL SLIP.

A supply of withdrawal slips is kept on hand in the cashier's office and when a pupil wishes to withdraw money she is given a slip which she fills out and presents to the cashier. These slips are assembled at the close of the day by serial number, and are entered in the Deposits Cash Book as a debit to the accounts of the individual pupils (Form 28).

A small stock cash book may be used satisfactorily as a record of money received and paid out on account of pupils' deposits. Entries are made in this book as explained above either from the duplicate receipt book or from the deposit tickets, depending upon which method is used, and from the withdrawal slips or signed checks passed in by the pupils.

This book serves as the posting medium to the Deposits Ledger, all entries on the debit side being posted to the credit of the pupils' accounts and entries on the credit side posted to the debit of the proper accounts.

It is necessary to have on hand an amount of cash, belonging to this account sufficient to meet daily withdrawals. All cash received in excess of this amount should be temporarily deposited in the special bank account kept with this fund.

The cash book should be balanced at the close of each month at which time the total deposits for the month should be posted to the debit of Cash—Pupils Deposits and to the credit of Pupils Deposit Account. The total withdrawals for the month should likewise be posted to the debit of Pupils Deposit Account and to the credit of Cash—Pupils Deposits (Form 29).

The general ledger account with Cash—Pupils Deposits (an asset) should be exactly equal to the account with Pupils Deposits (a liability) and the balance of each of these accounts should in turn agree with the cash on hand belonging to this special account plus the balance in bank.

The accounts with pupils who have money on deposit should be kept in a card ledger, the cards being of stock size and ruling and containing columns for debits, credits, and balance. Postings to this ledger are made from the Deposits Cash Book as explained heretofore. After all postings have been made, this ledger should at all times be in balance with the controlling account with Pupils Deposits in the general ledger. This should be ascertained by taking a monthly trial balance.

Charges to Pupils Accounts.—The method of making proper charges to pupils for term fees, special fees, book and supply store sales, chaperonage, tutoring, special food, etc., should be given careful attention in order that all charges may not only be accurately made but that the clerical work may be well systematized.

As a rule, the fee charged resident pupils covers tuition, board and

dormitory during the time that the school is actually in session, a limited amount of laundry, and in some cases, other privileges and services. This amount may be payable in two or more installments at fixed periods during the school year, the first installment being payable at the beginning of the year, and special bills being issued for later installments.

A registration fee may also be charged, payable when arrangements are completed by the parents for admission to the school. This fee is exacted as an evidence of good faith and to insure the parent that accommodations will be provided. The registration fee is usually paid some time during the preceding school year and in cases where the fiscal year closes June 30, or July 31, as is common in private schools, such fees are carried in an account called Registration Fees Paid in Advance. This is an account in which such fees are held in suspense until the beginning of the school year to which they apply, and is shown as a liability on the balance sheet prepared at the close of the fiscal year.

The registrar should prepare for the bursar an official list of all pupils formally admitted to the school and in attendance, which certified list becomes the basis for making all charges for tuition and special fees.

In addition to the term bills and bills for special fees which are sent out at stated intervals, bills must be rendered regularly for purchases of books and supplies, chaperonage, tutoring, vacation board, meals of guests, special food, breakage, telephone calls, extra laundry, etc. There should be a systematic method adopted of recording such charges and accumulating them in order that bills may be rendered therefor. For example, the book and supply store should have charge slips or regular books of sales tickets, a slip being made out containing the pupil's name, article sold and price, for each charge sale.

These slips are sorted alphabetically and together with other charge slips turned over by the house matron, principal, laundress, and others connected with the school, to the bookkeeper or to the one who does the billing.

If the volume of such charges warrants it, such billing should be done on the typewriter and made a continuous process; in other words, whenever the first charge is made against a pupil's account in a given month, a bill is started and the charge entered thereon; as later charges appear they are entered in order of the dates on the bill; the process being continued from day to day, until the end of the month when the bill is totaled and ready to be sent to the parent. Bills should be made out in duplicate, the original going to the parent or given to the pupil and the duplicate used as the medium for posting to the pupil's account.

Before filing, a record is made of the charge in the Bill Register, which serves as a means of distributing the income to the proper accounts.

This register may contain columns for the date, pupil's name, particulars or bill number, and Accounts Receivable, and distribution columns for the most common sources of income—Tuition—Boarding Pupils, Tuition—Day Pupils, Fees for Special Courses, Book and Supply Store Sales, and a space for Sundry Credits consisting of Name of Account, Folio and Amount. (See Charge Journal Physicians Accounts, page 171.)

The Pupils Ledger should be either a card or a loose leaf ledger and may be of stock size and ruling, or special rulings may be provided, showing separate columns for term bills and miscellaneous charges. Charges to the accounts with pupils kept in this ledger come from the Bill Register, with perhaps an occasional charge from the journal; credits come from the general cash book. The balances of all open accounts in this ledger should be drawn off once a month to see that they are in agreement with the controlling account in the general ledger.

Pay Rolls.—The wages of the maids, laundresses, clerical help, and male employees, would in most cases be paid weekly and in currency. A simple pay roll would be made up (see page 141), giving a list of all regular employees, their weekly wage, deductions, if any, and net amount due. The pay roll may be of such a form that it could be signed by each, at the time the pay envelopes are called for or distributed, or wage receipts may be attached to the pay envelope filled out with the date, name of employee, and amount, which would be signed and returned.

If the Voucher System is used, a voucher would be prepared, and recorded in the Voucher Register as a credit to Vouchers Payable; this voucher may be debited through the register to the several wage accounts, or the debit may be to a Pay Roll account; in the latter case, a monthly journal entry would be made distributing the total pay roll for the month to the several wage accounts. This method reduces slightly the amount of clerical work as a monthly, instead of a weekly, distribution is made, and furthermore, the Pay Roll account serves as a compact statistical account.

A check would be drawn for the total pay roll and recorded in the Check Register as a debit to Vouchers Payable. A Pay Roll Memorandum would be prepared showing the bills and coin of each denomination needed, in order that the separate envelopes may be filled.

The officers of administration and the instructors would usually

be paid monthly and by check and a separate pay roll or register would be made up for all who are paid in this way. This often takes the form of what is called a Salary Book (Form 30) which is particularly convenient in the case of a school with a large faculty and with teachers of different grades.

Such a book would be made up at the beginning of the school year after all appointments have been made and would contain a complete list of all permanent members of the staff arranged in one group alphabetically or by departments. By means of distribution columns for the monthly installments in which the salaries are paid, it would be necessary to write the names but once during the year. At the close of each month, the monthly salary of each would be entered in its proper column, a voucher prepared for the total, and recorded in the Voucher Register as a credit to Vouchers Payable and a debit to the proper salary accounts. Checks would then be drawn in payment of this voucher, payable to each member of the salaried staff, a single entry being made in the Check Register as a debit to Vouchers Payable for the total of all checks so drawn.

A distinct advantage of the Salary book, if privacy is desired, is that it may be placed in the hands of some one person and so kept that no other member of the office force has access to it. A single check may then be drawn on the general bank account for the total monthly salary, and deposited in a special salary account. The one who has charge of the Salary Book would draw all salary checks, deliver them and obtain receipts. The bank would be instructed to deliver only to this person the bank statement prepared for the special salary account.

Analysis of Maintenance Accounts.—In the classification recommended for the general ledger accounts, a maintenance account is provided for each building. To this account are charged all expenses of maintenance and upkeep such as insurance, taxes, water rates, repairs, depreciation, etc. If, in addition to the total maintenance charges, it is desired to know how the individual items vary from month to month and for the different buildings, a subsidiary record should be kept showing an analysis by months of all such charges. A simple analysis book, in which the charges are distributed by months will give this information and with little additional clerical work.

EXERCISES FOR THE STUDENT

1. The Voucher System is in use in the bookkeeping office of the Pine Ridge School for Boys. The Voucher Register in addition to the regulation columns and spaces provided for date, name, voucher number, and details of payment, contains money col-

umns for Vouchers Payable, Pay Roll—Wages; Pay Roll—Salaries; Class-room Supplies; Printing, Postage and Stationery; Groceries and Provisions; Maintenance Rogers Hall; Maintenance Beacon Dormitory; Maintenance Dewey Dormitory; Book and Supply Store Purchases, and spaces for Sundry Debits.

Design a Voucher Register according to the above specifications on paper of appropriate size, and record therein the following invoices of purchases, and expenses for the month of September, 1918.

- Sept. 4. Weekly pay roll, \$812.50; (total weekly pay roll is charged to the Pay Roll — Wages account through the Voucher Register, this account being distributed over the proper wages accounts by means of a monthly entry).
8. Invoice of A. L. Dion & Company for ten new desks for class rooms, \$225.
 9. Invoice of Eastern Chemical Company for laboratory supplies, \$84.75.
 10. Fire insurance bill of Stanley & Barrows, Agents, for renewal of policies expiring September 15; Rogers Hall, \$68.05; Beacon Dormitory, \$57.80; Dewey Dormitory, \$49.63; Gymnasium, \$12.80.
 11. Weekly pay roll, \$812.50.
 12. Bill of Weber Piano Company, rent of three pianos for September, \$30.
 15. Bill of J. C. Pickett for repairs and carpenter work, analyzed as follows: Rogers Hall, \$76.95; Beacon Dormitory, \$287.56.
 18. Weekly pay roll, \$812.50.
 20. Bill of Ward Bros. for printing and stationery: class room supplies, \$64.75; general office, \$26.85.
 22. Bill of R. H. Chandler & Company for linen for dormitories, \$214.50.
 24. Chapin Hardware Company, tools for use about the grounds and buildings, \$27. (Replacements.)
 25. Weekly pay roll, \$825.
 26. Office Appliance Company, two vertical filing cabinets for general office, \$80.
 27. The Specialties Manufacturing Company, additional gymnasium equipment, \$261.50.
 28. E. W. Burt & Company, invoice of new books for the school library, \$96.75.
 31. Bills for groceries and provisions for the month: Acme Creamery, butter, \$110.50; Morse Provision Company, meats, \$362.75; D. W. Hood & Company, milk and cream, \$137.65; Huntington Market, \$290.08.
Bill for electricity, Dewey Dormitory, \$37.96; Beacon Dormitory, \$29.18; offices, \$46.20.
Bills for books and supplies for store, D. C. Heath & Company \$129.60; Ronald Press Company, \$148.70; MacMillan Company, \$38; Allen & Bros., \$184.60; Ward Bros. \$62.55; Morton & Swift, \$63.80. Salary pay roll for the month, \$4,640.67.
Bill of Roberts Garage for tires, gasoline, repairs, etc., \$48.90.
Bill of Howard & Ball for laundry supplies, \$105.40.
Bill of School Street Printing Company for printing special bulletin announcing the opening of school, \$225.
Bills for magazine advertising, Harper & Bros., \$50; Scribners, \$75; Literary Digest, \$125.
Bill from E. W. Burt & Company for chalk, erasers, etc., for class room use, \$3.80.
Telephone bill, State Telephone Company, \$45.
Bill of J. A. White & Company for coal delivered to Beacon Dormitory, \$216.75.

Receive from the petty cashier a summary of cash expended during the month, as follows: Express, \$3.80; office supplies, \$6.40; extra maid service, \$15; postage, \$40; telegrams, \$2.75.

Foot all money columns, and make sure that the totals of the distribution or debit columns are equal to the total of the Vouchers Payable column. Rule the register properly and show by a journal entry how postings would be made from the book.

Following is a trial balance taken from the ledger of a leading private school showing actual accounts and figures:

CHESTNUT RIDGE SCHOOL

TRIAL BALANCE—DECEMBER 31, 1917

Cash	\$1,399.32	
Tuitions Receivable.....	550.00	
Sundry Receivables.....	3,444.15	
Building Fund Investment.....	1,260.00	
Land.....	16,800.00	
Highland Hall Building.....	9,500.00	
Eliot House Building.....	20,000.00	
Stowe House Building.....	20,406.67	
Bacon House Building.....	5,000.00	
North House Building.....	7,771.67	
Heating Plant Building.....	5,000.00	
Garage & Shop Building.....	1,195.44	
Highland Hall Furniture & Furnishings.....	1,335.73	
Stowe House Furniture & Furnishings.....	3,490.76	
Eliot House Furniture & Furnishings.....	3,063.78	
Bacon House Furniture & Furnishings.....	629.12	
North House Furniture & Furnishings.....	112.77	
Office Equipment.....	219.25	
Gymnasium Equipment.....	300.00	
School House Equipment.....	1,022.24	
Chemistry Laboratory Equipment.....	85.00	
Kitchen and Dining Room Equipment.....	2,642.17	
Library.....	750.66	
House Linen.....	1,333.83	
Notes Receivable.....	716.71	
Mortgage Receivable.....	336.00	
Accounts Payable.....		\$266.47
Building Fund.....		1,260.00
Club House Fund.....		154.94
The Chestnut Ridge School Corporation.....		89,512.78
Interest on Mortgages Receivable.....		21.56
Tuition.....		48,837.50
Tuition Prepaid for 1917.....		300.00
Sale of Waste.....		25.55
Interest on Bank Balances.....		37.78
Telephone Commissions.....		6.14

Advertising.....	600.10	
Board Paid for Students Residing Outside School.....	194.25	
Chorus Class & Choir.....	74.91	
Maintenance of Bacon House.....	117.71	
Maintenance of Eliot House.....	1,002.53	
Maintenance of Highland Hall Dormitory.....	362.76	
Maintenance of Stowe House.....	278.90	
Maintenance of North House.....	1,879.09	
Maintenance of Heating Plant.....	19.60	
Maintenance of Grounds.....	578.67	
Maintenance of Gymnasium.....	7.41	
Maintenance of Electric System.....	12.37	
Maintenance of Circulating Library.....		45.78
Student Expenses—Physical Training Department.....		16.13
House and Faculty Laundry.....	519.01	
Students Laundry.....		120.57
Legal Expenses.....	18.53	
Lighting.....	243.49	
Office Expenses.....	287.58	
Rent of Pianos.....	90.50	
Pew Rent.....	300.00	
Printing.....	35.40	
Postage.....	121.80	
Reception & Teas.....	51.60	
House Wages.....	1,938.57	
Wages of Male Employees.....	1,852.93	
Salaries of Resident Faculty.....	9,313.87	
Salaries of Music and Art Teachers.....		50.81
Tutoring.....		24.75
Provisions.....	5,386.81	
Telephone & Telegraph.....	59.53	
Students' Sundry Account.....		100.76
Class Room Supplies.....	49.95	
Entertainments & Lectures.....	195.00	
Express.....	15.38	
Fire Protection.....	475.78	
Flowers.....	6.05	
Fuel.....	1,271.44	
General Expense.....	59.09	
Medical.....	33.76	
Bookstore.....	352.05	
Taxes.....	1,754.64	
Tools, Carpenter's Outfit, etc.....	21.69	
General Furnishings (in Stock Room).....	90.90	
Administration Expenses.....	71.55	
Annuity Account.....	2,500.00	
Donations for Civic Improvements and Charity.....	113.75	
Incorporation Expenses.....	24.50	
Interest on Notes Payable.....	97.87	
Laboratory Expenses.....		64.57
	<u>\$140,846.09</u>	<u>\$140,846.09</u>

If such practice is desired, a statement of income and expense and a balance sheet may be made up from the above trial balance.

3. Define the Functions of each of the following accounts found on the books of Miss Chapin's School for Girls, stating from what books and at what times the postings to the accounts would likely be made:.

Cash—Pupils Deposits
Pupils Deposits
Registration Fees Paid in Advance
Vouchers Payable
House and Faculty Laundry
Wages of Office Staff
Uncollectible Accounts
Income and Expense

COLLEGE ACCOUNTS

The accounts of colleges do not differ fundamentally from those of private schools and most of the methods considered in connection therewith would apply equally well to college accounts. Many details would naturally have to be modified to fit the needs of a particular college or university as the accounting procedure is naturally influenced by such things as the size of the institution, whether privately endowed or supported by state or federal taxation, the number of departments of schools, whether the institution maintains its own dormitories, and upon other circumstances, which would add to or subtract from the complexity of the work.

In the case of a privately endowed institution, much care must be exercised in the administration of the endowment funds, in the handling of the fund accounts, and in accounting for the income derived therefrom. The funds would as a rule be invested in a well distributed list of high-grade securities and it would be necessary to keep a complete and well-classified register of all such investments.

In the case of state institutions the handling and recording of income is exceedingly simple as the appropriation voted is usually a fixed amount, payable all at one time or in fixed installments.

Annual Budget.—In any educational institution a yearly budget is essential as forecasting the financial needs of the institution and as fixing a basis upon which an equitable apportionment of the income may be made. The preparation of such a budget is in the hands of the president who submits it to the board of trustees for acceptance.

After the budget has been accepted and the appropriation voted, a journal entry may be made to bring the action of the trustees on the books

as a matter of record and to establish the departmental allowances for the year. This entry would be in the following form:

Income Receivable	\$**	
To Departmental Appropriations		\$**
(A separate credit for each department of the institution.)		

As the appropriation is received in cash entries would be made in the following form:

Cash	\$**	
To Income Receivable		\$**

and another entry:

Departmental Appropriation	\$**	
To General Income		\$**

As the money is spent:

General Expense Accounts	\$**	
To Cash		\$**

Statistical Data.—In addition to the books of account necessary for the recording of receipts and disbursements, income and expenses, and for showing the financial status of the institution as a whole, any large institution would derive much valuable information from auxiliary records giving statistical information in the form of comparative expenses, cost records showing cost of instruction per student per year, and analysis of maintenance and operating accounts. It is the province of the accounting office to compile any data from the accounts and books of record which may be desired by the president and board of trustees, and this often calls for originality and ingenuity on the part of the person who is entrusted with such work.

Financial Reports.—Whether supported by endowments and tuition, or by taxation, every college or university should publish an annual report of its finances. In fact, most state aided institutions are required by law to do so and this requirement has doubtless had not a little to do with a better systematizing of the work of such institutions and with the installation of sound business and financial practices.

The wisdom not only of publishing such reports but of bringing about a reasonable degree of uniformity among colleges in the form and contents of such reports gave rise a few years ago to a most thorough investigation of the accounting methods of colleges by the Carnegie Foundation for the

Advancement of Teaching. The results of the investigation which had to do with financial reports are to be found in Bulletin No. 3 published by the Foundation, from offices at 576 Fifth Avenue, New York City. This report should be most helpful to any one interested in college accounts because of the suggestions contained therein regarding bookkeeping methods, classification of the income and expense accounts, the emphasis placed upon sound business methods, and particularly for the standard forms recommended for financial reports of colleges, universities and the technical schools.

An extract from the report relative to the practice of preparing financial statements will be of interest in this connection. The author, Henry S. Pritchett, says:

"The college has everything to gain by opening its books to the public, and those who give to colleges will more and more generally insist upon having a definite statement of the use which the college has made of its money. No college which refuses to do this deserves to be entrusted with money. There can be no question, also, but that colleges and universities will be less worldly and less commercial in their standards in proportion as they accept clearly their financial limitations."

The standard forms and schedules recommended have been adopted by many prominent colleges, and they may well be examined carefully by anyone interested in this feature of the work.

RUGGLES COLLEGE EXERCISE

Ruggles College, Boston, Massachusetts, was founded by Henry Ruggles who died in 1870. By his will he left the greater part of his estate to the endowment of a college for teaching the "applied arts and sciences to women in such a way as would be best calculated to enable them to acquire an independent livelihood." The will prescribed that certain of his property was to be held in trust and be allowed to accumulate until such accumulations should reach the amount of five hundred thousand dollars, after which the Trustees were to devote so much of the property as was deemed expedient to the purchase of a site and the erection and equipment of a suitable building or buildings for College purposes.

The Trustees proceeded with the care of the estate as the testator had directed and in 1899 it seemed that the time had come for the organization of the college. A charter incorporating the institution was granted by the General Court of Massachusetts in that year. When the property was transferred to the new corporation, October 1, 1899,

it consisted of real estate valued at \$1,035,000, with mortgages outstanding amounting to \$375,000, and an accumulated income of \$541,110.24. Between 1899 and 1902 all the real estate in which the greater part of the Trust Fund was invested was disposed of to such advantage that the endowment of the college clear of all encumbrances was increased to \$2,047,586.

The following is a copy of a trial balance taken at the close of the fiscal year, 1918:

TRIAL BALANCE, JUNE 30, 1918

Cash	\$25,779.36	
Notes Receivable.....	122.50	
Accounts Receivable.....	41.13	
Investments—General.....	1,186,160.75	
Scholarship Fund Investment.....	9,460.00	
Stowell Fund Investment.....	7,073.74	
Cutler Fund Investment.....	3,114.00	
Real Estate 141-147 Boylston St.....	334,200.00	
Real Estate 65-71 Summer St.....	286,000.00	
Real Estate 18 Chestnut St.....	64,500.00	
Longwood Avenue Dormitory.....	303,736.22	
Queensbury Street Dormitory.....	75,000.00	
Worthington Street Land.....	147,931.49	
Dormitory Equipment.....	30,708.99	
College Land and Buildings.....	736,839.63	
College Equipment.....	83,411.02	
Bond Premium and Discount.....		\$1,995.37
Henry Ruggles Endowment.....		2,187,787.18
Stowell Endowment.....		7,073.74
Cutler Endowment.....		3,114.00
Scholarship Appropriation.....		9,460.00
Alumnæ Endowment.....		4,351.63
Dean's Appropriation.....	672.50	942.35
Dormitory Construction Fund.....		67,239.41
Reserve for Dormitory Depreciation.....		20,377.55
Reserve for College Building Depreciation.....		7,781.38
Mortgage Payable Chestnut St.....		37,500.00
Mortgage Payable Queensbury St.....		75,000.00
General Surplus.....		35,187.56
Surplus Invested in Lands, Buildings and Equipment.....		815,250.65
Accounts Payable.....		854.69
Dormitory Payments in Advance.....		9,865.00
Tuition Fees.....		116,985.90
Locker Rentals.....		362.25
Collections on Students' Cheques.....		338.26
Income from Lunch Room.....		921.62

Maintenance and Income 141-147 Boylston St.....	17,141.52	
Maintenance and Income 65-71 Summer St.....	14,143.12	
Income from Investments—General.....	42,923.33	
Income from Stowell Fund.....	343.08	
Income from Cutler Fund.....	124.60	
Income from General Scholarship Fund.....	276.12	
Maintenance and Income—Longwood Avenue Dor- mitory	14,621.53	
Maintenance and Income—Queensbury St. Dor- mitory	3,894.48	
Interest on Deposits.....	864.24	
Telephone Commissions	101.09	
Scholarship Refunds.....	2,295.00	
Instruction Salaries.....	117,753.83	
Instruction Expenses	18,777.00	
Special Lectures.....	4,386.69	
Administration Salaries	19,271.63	
Office Expenses	8,982.51	
Advertising and Printing.....	2,933.99	
Commencement Expense.....	935.94	
College Monthly.....	368.25	
Maintenance of Plant	16,105.66	
Miscellaneous Administration Expense.....	725.46	
Scholarships.....	4,122.50	
Interest on Mortgage.....	2,069.45	
Chapel Expenses	1,371.44	
Library Expense.....	6,560.97	
	<u>\$3,499,116.65</u>	<u>\$3,499,116.65</u>

Following is an analysis of certain expense accounts.

MAINTENANCE OF PLANT:

Service.....	\$8,642.88
Fuel	2,539.72
Electricity.....	1,760.11
Supplies.....	1,210.37
Water.....	491.70
Insurance.....	565.58
Towels.....	216.09
Grounds.....	319.71
Express	5.90
Gas.....	353.60
Total	<u>\$16,105.66</u>

*ELEMENTS OF ACCOUNTS***OFFICE EXPENSES:**

Service.....	\$6,404.06
Supplies.....	901.57
Postage.....	866.28
Telephone and Telegrams.....	757.72
Express.....	25.68
Carfares.....	27.20

Total	\$8,982.51
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MISCELLANEOUS ADMINISTRATION EXPENSES:

Travelling.....	\$191.60
Auditing and Care of Securities.....	498.55
Hospitality.....	25.01
Gratuities.....	10.00

Total.....	\$725.46
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CHAPEL EXPENSES:

Rent.....	\$580.00
Music.....	491.44
Pulpit Supply.....	300.00

Total	\$1,371.44
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LUNCH ROOM:

Income.....	\$10,799.04
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Expenses:

Food.....	6,361.90
Service.....	3,136.96
Supplies.....	329.24
Laundry.....	44.12
Express.....	5.20

Total Expenses.....	\$9,877.42
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The following work is required:

(a) Statement of Income and Expense for the year ended June 30, 1918. Care and judgment should be exercised in the classification and arrangement of all items in order that a complete record of income and expense may be presented in the most logical manner. If it is thought that certain parts of the report should be supported by separate schedules, prepare such schedules.

(b) Balance Sheet, June 30, 1918. The assets and liabilities should be classified as follows:

ASSETS:

1. Current Assets
2. Investment Assets
3. Educational Plant, Lands, Buildings and Equipment

LIABILITIES:

1. Current Liabilities
2. Endowment and Other Funds
3. Capital Accounts

In preparing the statements required, take account of the following factors which require adjustment:

Anticipated insurance, \$312.67; accrued interest on mortgages, \$490.62.

After allowing 4 per cent. return on the cost of the dormitories the remainder of the net income from dormitories is to be credited to the depreciation reserve account. We are to set aside \$5,000 as an additional reserve for depreciation of plant.

Before beginning upon the financial statements, the function of the accounts in the above trial balance should be clearly understood. This applies particularly to the Endowment accounts.

(c) Design a Salary Book for use in the above college, enter therein a schedule of salaries paid to the following staff of professors and instructors in the English Department and distribute the same over a twelve-month period.

Lewis A. Rawlins, Professor, Head of Department.....	\$4,000
Frederick A. Meserve, Professor.....	3,500
S. H. Pinkham, Associate Professor.....	3,000
Miss L. A. Putnam, Associate Professor.....	2,700
John C. Cotton, Assistant Professor.....	2,300
Miss Charlotte Green, Assistant Professor.....	2,100
Miss C. W. Bates, Assistant Professor.....	2,000
Amy R. Lawrence, Instructor.....	1,700
Lucy A. Brewer, Instructor.....	1,500
Henry W. Hart, Instructor.....	1,300
Clara B. Smith, Instructor.....	1,200

CHAPTER XIX

HOSPITAL ACCOUNTS

Probably more attention has been given by hospitals to the standardization of their reports and statistics and to the perfecting of their accounting methods than by any other type of institution. The reason for this is not hard to find. The service which such an institution renders to a community is dependent largely upon the manner in which its affairs are administered. Reliable figures and statistics must be available at all times in order that the work may be properly developed and expanded; there should be a certain harmony between the reports and statistics published by different hospitals in order that comparisons may be made and conclusions arrived at; the information desired by the superintendent and board of trustees is of such a detailed character that it is necessary to have a well-planned system of accounts in order that such information may be obtained with the minimum of clerical work.

With a view to meeting the conditions suggested above, a study was made a few years ago by a committee appointed for that purpose from a number of the larger hospitals in the country, particularly in New York City. The object, as stated in their report, was "to encourage and assist hospitals in adopting a simple and intelligent system of accounting approved by certified public accountants and by those experienced in hospital management." And further, "a system which would readily set forth in a uniform manner the statements of revenue and expenses, assets and liabilities, etc., desired by the public for their information and for intelligent comparison with similar reports or statements of other hospitals."

The work of this committee was compiled and arranged by Mr. William V. S. Thorne in a volume which is now in its third edition,¹ and inasmuch as the ground has been covered so well in this work, there is no reason for going into the subject extensively at this time.

The attention of all who are interested in hospital accounts is also

¹ Hospital Accounting and Statistics by William V. S. Thorne, E. P. Dutton & Co., New York.

called to a work by Professor William Morse Cole on institutional accounts.¹ While Professor Cole's book is a consideration of certain problems connected with the accounts of various institutions, the subject of hospital accounts is given particular attention.

For the student who is interested only in a general way in hospital accounting, the following classification of accounts and of books and forms will suggest most of the activities of the average hospital and will give some idea of the nature of a suitable system.

For those who desire to make a special study of such accounts, it is suggested that use be made of the books mentioned above.

In most cases two separate sets of books would be kept, one having to do with the accounts of the treasurer as the financial officer of the hospital; the other with the superintendent as the administrative head of the institution.

The classification which follows will show how the activities of each are divided.

TREASURER'S GENERAL LEDGER ACCOUNTS

ASSETS:

- Cash
- Investments—Stocks
- Investments—Bonds
- Investments—Special Endowments
- Mortgages Receivable
- Loans and Notes Receivable
- Treasurer's Accounts Receivable
- Grounds
- Buildings (separate account with each)
- Furniture and Furnishings (separate account with each building)
- Outside Equipment
- Apparatus and Instruments
- Ambulances
- Trucks

LIABILITIES AND SURPLUS:

- Mortgages Payable
- Loans and Notes Payable
- Reserves
- General Endowments
- Special Endowments
- Surplus Invested in Real Estate
- Surplus Invested in Furniture, Furnishings and Equipment
- General Surplus or Deficit

¹ Cost Accounting for Institutions by William Morse Cole, Ronald Press Co., New York.

INCOME:

Hospital Earnings (reported by Superintendent)
Legacies
Donations for Special Purposes
Donations—General
Income from Special Endowments
Income from General Endowments
Interest on Bank Balance
Interest on Mortgages Receivable
Interest on Loans and Notes Receivable

EXPENSE:

Hospital Expenses (reported by Superintendent)
Treasurer's Account with Superintendent

TREASURER'S BOOKS AND FORMS

Cash Receipts Book
Cash Disbursements Book
Investments Register
Insurance Register
General Ledger
Accounts Receivable Ledger
Perpetual Inventory of Furniture, Furnishings and Equipment

SUPERINTENDENT'S GENERAL LEDGER ACCOUNTS**Assets****CURRENT:**

Cash
Petty Cash Fund
Accounts Receivable—Patients

INVENTORIES:

Medical Supplies
Surgical Supplies
Kitchen Equipment and Supplies
Food Supplies
Fuel on Hand
Office Supplies

Liabilities**CURRENT:**

Vouchers Payable

SUPERINTENDENT'S ACCOUNT WITH TREASURER**INCOME:**

Board of Private Room Patients
Board of Ward Patients
Board of Guests
Special Nursing
Sales of Medical Supplies
Operating Room Fees
X-ray Fees
Sale of Waste
Telephone Commissions
Miscellaneous

EXPENSE:

Care of Patients:
Salaries and Wages of Nurses and Assistants
Salaries and Wages of Orderlies
Drugs and Stimulants
Anæsthetics
Rubber Goods
Gauze Bandages and Absorbent Cotton
X-ray Supplies
Pathological Department Expenses

HOUSE EXPENSE:

Salaries and Wages
Linen
Laundry Expense
Food Supplies
Heat and Light
Depreciation of Equipment
Repairs and Renewals of Equipment

REAL ESTATE EXPENSE:

Repairs to Buildings
Water
Insurance
Interest on Real Estate Mortgage
Depreciation of Buildings
Janitors Supplies

ADMINISTRATIVE EXPENSE:

Superintendent's Salary
Salaries and Wages of Office Clerks
Stationery, Printing and Postage
Telephone and Telegrams
Publicity

For statistical purposes it would be well to departmentize the activities of the hospital in order to show the income and expense of the following departments, or as many of them as would be found in a particular hospital:

- Medical Patients
- Surgical Patients
- Maternity Patients
- Out Patients

SUPERINTENDENT'S BOOKS OF ACCOUNT

PURCHASE BOOKS AND FORMS:

- Requisition Blank
- Purchase Order
- Goods Received Blank
- Voucher Register
- Voucher Cover

CASH BOOKS AND RECORDS:

- Cash Receipts
- Cash Payments
- Petty Cash Book
- Petty Cash Voucher
- Voucher Check
- Superintendent's Daily Cash Report
- Out-patient Department Daily Cash Report

CHARGE BOOKS AND RECORDS:

- Patients' Ledger (divided if desired into sections for Medical, Surgical, X-ray, Apothecary, etc.)
- Patients' Bill Register

GENERAL BOOKS AND FORMS:

- Patients' History Card
- Requisition on Stores (for Kitchen Supplies, Stationery, Medical Supplies, Surgical Supplies, Laundry Supplies, etc.)
- Head Nurse's Daily Report
- General Journal
- General Ledger
- Trial Balance Book
- Pay Roll Book

The purpose of the above books and forms is as a rule clearly indicated by the title, but the form, size and ruling would vary with the size and activity of the hospital, the wishes of the superintendent and other administrative officers, and the ability of the one who has the work in charge.

Many of the forms have been considered in other connections and need no further discussion at this time.

EXERCISES FOR THE STUDENT

1. Procure the published report of a hospital and make a careful study of the financial statements, statistical exhibits and schedules contained therein. Consider whether the financial facts are presented in a clear, logical and practical manner.

2. Draw a diagram of the following forms showing thereon the information which you would regard as essential:

Requisition on Stores
Patients Charge Card
X-ray Charge Slip
Petty Cash Voucher
Goods Received Slip

3. Explain in detail and illustrate by figures the method by which a hospital would arrive at the "cost per patient per day" for a certain fiscal period. (See Hospital Accounting and Statistics.)

4. Who should issue the requisitions for all purchases and expenses that are incurred? How many copies should be prepared?

5. Outline a method of handling stores in order to safeguard all such stores to the greatest extent and at the same time to give an up-to-date record of stores on hand for inventory purposes.

CHAPTER XX

TREASURERS' REPORTS

Business and professional men, because of their prominence and wide acquaintance in a social and business way, are often chosen to be treasurers of various institutions, such as societies, clubs, hospitals, libraries, etc. For the reason that the clerical work connected with such an office is generally done by the private secretary, it is desirable that her training include some practice in keeping the necessary accounts and in the technique and arrangement of a treasurer's report.

It is the general practice of such institutions to require the treasurer to submit a report at the annual meeting and as a rule the report is printed as a part of the annual report of the institution. If the treasurer's books are kept by single entry, the only book that would probably be kept would be a simple Cash Book; the report of the treasurer in such cases would consist of nothing more than a condensed statement of cash receipts and disbursements for the year. If the books are kept by double entry, however, with Ledger accounts for all assets and liabilities and with the various divisions of income and expense, the report of the treasurer would, as a rule, consist of a Statement of Income and Expense and a Balance Sheet.

In the case of charitable and religious societies and institutions, the accounts should be kept and the report drawn up in such a manner as to show clearly the disposition of all donations, subscriptions and other income. It is particularly important that the report be prepared in such a way as to distinguish clearly between expenses of administration, and the amount expended in carrying on the work which the society or institution was organized to do. In other words, those who contribute to the work of such a society should be able to determine from the report, what portion of their contribution was available for the particular charity or benevolence which is being carried on, after such expenses as rent, office supplies, salaries, etc., have been met. The per cent. of income available for the work in which the organization is engaged is dependent largely upon the type of service which is being rendered, and upon efficiency of administration. Many charities are able to report that one hundred cents of every

dollar contributed is expended for relief or charity work, while an analysis of other reports shows that as high as 75 per cent. of the amount contributed goes to meet expenses of administration. Regardless of what the ratio may be, it should be possible to determine it from the report thus enabling the interested reader to form some impression of the care and wisdom exercised in conducting the affairs of the organization.

In general, the report of a treasurer consists of a statement in the form of a letter addressed to the proper authorities and signed by the treasurer. If the report is short, as, for example, if it consists of only a statement of cash receipts and disbursements, the more common practice is to embody the technical part of the report in the letter which is submitted, the signature coming at the end. If, on the other hand, the report consists of two or more separate schedules, it is preferable to open it with a short presentation letter properly signed, the letter being followed by the several financial schedules that go to make up the remainder of the report.

Following are model forms of introduction to printed reports which will give some idea of the standard wording and arrangement of such reports as they appear in practice. These will serve as suggestions to the student in compiling the reports required in the several exercises that follow.

To the Members of the New York Athletic Club,

New York, December 18, 1912.

Gentlemen:

The Financial Statement of the Club, which is herewith submitted to you, presents in full detail the report for the fiscal year ending November 30, 1912.

Respectfully submitted,

MARTIN S. PAINE, *Treasurer.*

Approved:

LOUIS BENDER,
ROBERT H. GOFFE,
WILLIAM L. MILLER,

} *Committee on Auditing.*

REPORT OF THE TREASURER FOR THE YEAR ENDED JUNE 30, 1912.

To the Corporation of Simmons College:

I have the honor to present the eleventh annual report of the Treasurer, together with the report of the Auditing Committee for the year ended June 30, 1912.

ROBERT T. PAINE, 2d, *Treasurer.*

Boston, September 4, 1912.

CLARK LIBRARY

Office of the Treasurer

Dayton, Ohio, June 30, 1910.

To His Honor the Mayor and the City Council,

Sirs:

I herewith submit my seventh annual report as Treasurer of Clark Library, as follows:

Exhibit A—Balance Sheet, June 30, 1910.

Exhibit B—Statement of Income and Expenditure for the year ended June 30, 1910.

I believe the above exhibits give a true and accurate report of the financial condition of the Clark Library.

Respectfully submitted,
(Signed) CHARLES W. CHILDS, *Treasurer.*

The following published reports will give some idea of the form of a complete report. The first is brief, and is confined to a statement of the cash received and disbursed, the inference being that a single entry Cash Book is the only book used.

Illustration A

Orphans' Aid Society

REPORT OF THE TREASURER

MR. ARTHUR G. WHITE, SECRETARY,
BOARD OF MANAGERS,
384 STANTON ST.,
SOMERVILLE, MASS.

Sir:

I herewith present a statement of the cash receipts and disbursements of the Orphans' Aid Society for the current year ending May 31.

TREASURERS' REPORTS

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RECEIPTS

Cash on hand, June 1, 1917		\$681.90
Subscriptions and Donations	\$1,526.51	
Income from Davis Fund	3,454.25	
Income from Miscellaneous Funds	2,706.29	
Life Memberships	400.00	
Net Receipts from Fairs and Entertainments	909.80	
Sales of Waste Paper	39.50	
	<hr/>	
Total receipts		9,036.35

\$9,718.25

DISBURSEMENTS

AIDS AND BENEVOLENCES:

Boston Dispensary	\$312.80
District Nursing Association	300.00
Baby Hygiene Association	605.70
General Fund Beneficiaries	200.00
Coal	230.64
Groceries	1,988.85
Clothing	91.39
Cash	581.17
Christmas	200.00
Barnum and Bailey Circus	50.00
Sundries	13.50
Salary of Agent	1,500.00

\$6,074.05

ADMINISTRATION:

Salary of Secretary	\$1,200.00		
Fuel, Light and Water	290.25		
Repairs	80.08		
Cleaning	125.39		
Telephone	75.10		
Printing By-laws, Annual Report, etc.	279.46		
Postage and Stationery	246.50		
Insurance	19.50		
Rent of Deposit Box	15.00		
Advertising	100.00		
Sundries	243.92	2,675.20	8,749.25

CASH ON HAND, MAY 31 **\$969.00**

Respectfully submitted,
S. E. WILLIAMS,
Treasurer.

347 Charles Street,
Cambridge, Massachusetts,
June 25, 1918.

Auditors Certificate

I have made an examination of the cash transactions of the treasurer of the Orphans' Aid Society for the fiscal year ended May 31, 1918, and I hereby certify that:

All cash shown to have been received has been properly accounted for.

Satisfactory vouchers are on file covering all disbursements.

The balance of cash on hand as of May 31, was on deposit as of that date.

In my opinion the foregoing statement is a full and complete report of the financial activities of the society for the year ended May 31, 1918.

WALTER M. MARION,
Certified Public Accountant.

287 Berkeley Street,
Boston, Massachusetts,
July 2, 1918.

Illustration B

The following report is more complete, consisting of a balance sheet and a schedule showing a summary of income and expense. The conclusion arrived at from the reading of the report is that the affairs of the institution are administered in a business-like manner, that a strict accounting is rendered of all funds placed at the disposal of the society, and that there is a desire on the part of the board of trustees to publish a complete report of its finances.

REPORT OF THE TREASURER

*To the Board of Government
of the Women's Educational and Industrial Union:*

I have the honor to present the thirty-ninth annual report of the Treasurer, together with the Auditors' reports, for the year ended September 30, 1917.

HELEN PEIRCE,
Treasurer.

SCHEDULE A

CONSOLIDATED BALANCE SHEET OF THE WOMEN'S EDUCATIONAL AND INDUSTRIAL UNION AND THE TRUSTEES OF THE WOMEN'S EDUCATIONAL AND INDUSTRIAL UNION, INC., SEPTEMBER 30, 1917

ASSETS

Current Assets

Union Cash:

In Bank and On Hand.....	\$1,612.79	
Petty Cash Funds.....	1,353.00	\$2,965.79

Union Benefit Cash.....		198.28
Stamp Savings Cash.....		4.11
Vacation Salaries.....		40.00
Accounts Receivable.....		10,997.63
Donations Receivable.....		190.31
Inventories.....		32,135.34
Library.....		497.11
Deferred Charges to Profit and Loss.....		4,493.06
Insurance Premiums Prepaid.....		1,293.71
Food Laboratory Good Will.....		2,100.00

Real Estate and Equipment:

Real Estate (Appraised Value).....	\$315,000.00	
No. 49 Providence Street (Cost).....	60,000.00	\$375,000.00
Less: Mortgages Payable.....	128,000.00	
Equity in Real Estate.....		247,000.00
General Equipment:		
264 Boylston Street.....	\$11,639.64	
Food Laboratory.....	1,467.69	
New England Kitchen.....	4,017.88	
School Lunch.....	2,760.05	\$19,885.26
Less: Reserve for Depreciation.....	4,238.44	15,646.82

Fund Investments:

Funds in Hands of Trustees:		
Permanent Fund.....	\$30,950.18	
Law and Thrift Fund.....	4,580.20	\$35,530.38
Perkins Securities.....		7,000.00
Emergency Loan:		
Cash.....	\$1,859.89	
Notes Receivable.....	6,275.63	8,135.52
Stamp Savings:		
Cash.....	\$354.13	
Investments.....	12,000.00	12,354.13
<i>Total Assets</i>		\$380,582.19

ELEMENTS OF ACCOUNTS

LIABILITIES

Current Liabilities

Accounts Payable;

Trade Creditors	\$31,119.97	
Other Creditors	500.00	\$31,619.97

Notes Payable		5,500.00
Accrued Rent		108.33

Funds

Funds in Hands of Trustees:

Permanent Fund	\$30,950.18	
Law and Thrift Fund	4,580.20	\$35,530.38

Emergency Loan	8,135.52	
Stamp Savings	12,354.13	

For Temporary Purposes:

Appointment Bureau Scholarship	\$50.00	
Union Benefit	239.75	
Publications	452.37	
Red Cross	37.58	779.70

For General Purposes:

Perkins Securities	7,000.00	\$63,799.73
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<i>Total Liabilities</i>		\$101,028.03
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CAPITAL

Invested in Real Estate	\$247,000.00	
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Operating Capital:

Caroline A. R. Whitney Fund	\$10,000.00	
M. C. C. Wilson Fund	500.00	
Alice M. Curtis Fund	9,332.97	
International Trust Co. Fund	5,000.00	
Almena J. Flint Fund	1,000.00	
Polly R. Hollingsworth Fund	500.00	
Mary H. Shannon Fund	2,000.00	
Legacies from the Mack Estate	5,500.00	
Union Miscellaneous Fund	3,084.00	36,916.97
		283,916.97

<i>Total Liabilities and Capital</i>		\$384,945.00
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DEFICIT

Operating Deficit, Oct. 1, 1916.	\$8,180.25	
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Less:

Net Income for the Year ended Sept. 30, 1917	\$3,992.34	
Profit and Loss Adjustments	174.90	3,817.44
		4,362.81

<i>Total Liabilities, Capital and Deficit</i>		\$380,582.19
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SCHEDULE B

SUMMARY OF INCOME AND EXPENDITURES FOR THE YEAR ENDING
SEPTEMBER 30, 1917

Expenses of Social Educational Departments.....	\$55,660.95	
Receipts from these departments.....	<u>10,955.83</u>	
Net Cost.....		\$44,705.12
Receipts from Industrial Departments.....	\$585,173.82	
Expenses of these departments.....	<u>568,104.52</u>	17,069.30
Add:		
Income from space occupied.....	<u>8,347.21</u>	
Net income to Union from departments.....		\$25,416.51
Balance of yearly budget to be met.....		<u>\$19,288.61</u>
Income from other sources:		
Donations.....	\$ 16,956.03	
Membership dues.....	5,000.00	
Investments.....	195.45	
Miscellaneous Income.....	<u>1,129.47</u>	\$23,280.95
Less:		
Profit and Loss Adjustments.....	<u>174.90</u>	23,106.05
Income for the year 1916-1917.....		<u>\$3,817.44</u>

AUDITOR'S CERTIFICATE

To the Treasurer and Auditing Committee of the Women's Educational and Industrial Union:

I have made an examination of the books and records of the Women's Educational and Industrial Union for the twelve months ended September 30, 1917, and hereby certify that the accompanying balance sheet is in agreement with the books, and that the cash and securities called for by the balance sheet were on hand or properly accounted for as of September 30, 1917.

I have also examined the securities held by the Trustees of the Women's Educational and Industrial Union (Inc.), and have seen that the income from the same has been properly accounted for as set forth in the report by the Treasurer of the said corporation.

CHARLES F. RITTENHOUSE,
Certified Public Accountant, Auditor.

Exercises for the Student**I****Arlington Tuesday Club****TREASURER'S REPORT**

The Arlington Tuesday Club is a woman's club founded in 1897 "to promote ethical, social and intellectual culture." The membership of the club is limited to three hundred members, all of whom must be residents of Arlington. The annual membership dues are \$5, with an entrance fee of \$2 additional for new members. The financial year ends May 31, on which date the annual meeting is held, unless the 31st should fall on Sunday, in which case the annual meeting would be held June 1.

The officers of the club consist of a President, three Vice-Presidents, a Secretary, Treasurer, Auditor, and a Board of Twelve Directors. These officers constitute the Executive Committee and have charge of all the affairs of the club.

The duties of the Treasurer are set forth in the By-laws as follows:

"The Treasurer shall receive, collect, hold, and pay out all moneys subject to the orders of the club. She shall keep a complete and accurate account in detail of all moneys received and expended by her, and shall pay only those bills which are approved by the Executive Committee. She shall procure a voucher for all payments made and shall file all vouchers in such a manner as to make them easy of inspection by the Auditor. She shall issue tickets of membership which shall constitute a receipt for the annual dues. She shall render a complete report in writing of all cash receipts and disbursements at the annual meeting."

According to the By-laws, the Auditor's duties are to "audit the Treasurer's accounts, ascertain that all payments have been properly authorized, examine vouchers for all payments and present at the time of the annual meeting a certificate setting forth the extent of the audit."

As Treasurer of the club, you have kept a Cash Book in which you have recorded all cash received and expended. You have deposited all cash received except a small amount kept on hand to pay bills which could not conveniently be paid by check. The Executive Committee has agreed to accept canceled checks as sufficient vouchers for bills paid by check in case receipted bills were not obtainable. You have procured vouchers from persons receiving the money for all payments made in currency.

The Cash Book shows receipts and payments for the year as follows:

Cash on hand June 1, 1911, \$356.48. The 258 members all paid their annual dues, there being seven new members admitted during the year and included in this number. Certain classes were conducted during the year for the benefit of members, a nominal charge being made to help defray expenses. These classes and receipts from each were as follows: Physical Culture, \$129.50; Literature, \$73; History and Travel, \$20. The sale of tickets for the annual guest night amounted to \$107. The income from the May Breakfast held at the Vendome given in honor of the retiring President amounted to \$139. Contributions to the Endowment Fund received from members during the year amounted to \$101.50. The sale of tickets for the lecture given to raise

money for the District Nurse amounted to \$107.10. Received during the year for rent of piano from various societies and clubs using the same hall, \$123; for rent of stereopticon, \$42. Sale of Federation Bulletin and Year Books, \$1.50. Interest on bank balance, \$9.42.

The club rooms are located in Wentworth Hall, for which a yearly rental of \$249 is paid, including janitor's service. Paid to lecturers during the year, \$295.50. The expenses of conducting the Physical Culture class were \$100.50; Literature class, \$128; History and Travel class, \$20. Teas were served during the year at a total cost including service of \$192.78. The expenses of the annual guest night were \$228.45; children's day, \$45.41; for lecture for District Nurse Fund, \$17.10; May Breakfast, \$148.57. State and general Federation fees, \$39.35. Expenses of delegate to the annual Convention of Women's Clubs, \$12.40. Paid into Endowment Fund, \$125. Contributed to Massachusetts Forestry Association, \$5; to Massachusetts Civic League, \$5; to Society for Moral Education, \$2; to charity, \$100. Printing and Postage, \$153.42. Refund of dues, \$15. Telephone, \$18.80. Federation bulletins, \$2. Repairs as follows: Piano, \$59; box scenes, \$24; lantern, \$2.10.

Prepare Treasurer's report in a form ready for the printer for the year ending May 31, 1912.

Give attention to all details such as punctuation, use of capitals, indentations, use of the dollar sign.

Better work can be done in preparing treasurers' reports if the work is done on plain $8\frac{1}{2} \times 11$ paper rather than on journal paper. If more than one schedule or exhibit is required, each should be begun on separate paper.

II

Following is a digest of the financial report published by the Haverhill Boys' Club Association for the year ending May 31, 1917:

Cash was received from annual subscriptions and donations, \$1,660.15; special donations, \$614.09; annual collection taken in Haverhill churches, \$131.74; from investments, \$125.99.

The disbursements for the year were as follows: Salaries and wages of secretary and assistant, \$1,317.10 printing, postage and office supplies, \$89.83; rent, \$480; heat, light and power, \$101.63; insurance, \$14.25; provisions and supplies for endowments, \$94.56; charity, \$33.85; instruction in industrial arts, \$96.55; miscellaneous, \$59.16.

The balance of cash carried forward from the previous year amounted to \$105.13.

Set up (a) Statement of Cash receipts and disbursements for the year.

(b) What per cent. of the year's receipts went toward meeting the purely administrative expenses of the association?

Show the work by which you arrive at this figure.

III

Dartmouth Dining Association

TRIAL BALANCE, JUNE 30, 1911

Cash.....	\$133.35	
Accounts Receivable.....	1,056.49	
Food Inventory (July 1, 1910).....	812.75	
Fuel Inventory (July 1, 1910).....	65.00	
Advances from Dartmouth College.....		\$1,500.00
Accounts Payable.....		300.00
Meal Coupons Unredeemed.....		153.37
Food Purchases.....	59,988.41	
Fuel Purchases.....	1,301.68	
Wages—General.....	12,918.65	
Wages—Student Help.....	12,501.51	
Salary of Manager.....	1,000.00	
Laundry.....	1,474.00	
Printing and Postage.....	836.50	
Telephone and Telegrams.....	192.77	
Water and Ice.....	822.11	
Heating and Lighting.....	2,360.43	
Rent.....	1,800.00	
Repairs and Renewals.....	4,370.29	
Board—Dining Room.....		55,708.26
Board—Grill Room.....		36,716.57
Training Table.....		2,386.21
Banquets.....		3,789.06
Miscellaneous Income.....		1,080.47
	<u>\$101,633.94</u>	<u>\$101,633.94</u>

Inventories, June 30, 1911:

Food.....	\$900.00
Fuel.....	100.00

The following is required:

The report of the manager for the year, addressed to the Treasurer of Dartmouth College, consisting of a Statement of Income and Expense and a Balance Sheet.

IV

Shattuck School for Boys

The following items are the balances of the open accounts appearing on the ledger of the Shattuck School for Boys, Hastings, Minnesota, for the fiscal year ending June 30, 1914:

Tuition.....		\$65,387.50
Supply Room (net).....		492.42
Locker Rentals.....		252.75
Collections on Students' Checks.....		273.95
Dormitories (net).....		12,489.16
Interest on Deposits.....		272.30
Telephone Commission.....		73.22
Salaries of Instructors.....	\$46,490.20	
Instructors' Supplies.....	4,231.11	
Expenses of School Office.....	7,077.20	
Printing and Postage.....	901.39	
Graduation Expenses.....	531.30	
"Bugle" Deficit for Year (School Magazine).....	239.93	
Maintenance of Buildings.....	14,718.81	
Miscellaneous.....	848.36	
Scholarships.....	3,500.00	
Cash.....	13,440.82	
Real Estate.....	330,000.00	
Notes Receivable.....	24,000.00	
Dormitories and Equipment.....	300,000.00	
Accounts Payable.....		474.77
Endowment.....		500,000.00
Surplus Invested in Land and Building.....		216,263.05
General Equipment.....	50,000.00	
	<u>\$795,979.12</u>	<u>\$795,979.12</u>

The above school is under the control of a board of trustees appointed by the Bishop of the Diocese of Minnesota. The treasurer of the school spends two days each week at the office of the school. As his assistant, you have charge of the books and prepare the annual report.

(a) Prepare the annual report of the treasurer, William G. Lightner, with appropriate exhibits, to be submitted to the Board of Trustees, Minneapolis, Minnesota.

(b) Which of the items in your report do you think should be supported by schedules showing details?

ELEMENTS OF ACCOUNTS

V

Chicago Club

TRIAL BALANCE, OCTOBER 31, 1914

Cash in Banks.....	\$19,137.60	
Cash in Office.....	27.69	
Petty Cash Fund.....	125.00	
Debenture Sinking Fund (State Street Savings Bank)...	5,412.31	
Accounts Receivable:		
House Accounts.....	16,154.56	
Annual Dues.....	780.00	
Assessments Unpaid.....	258.00	
Furniture and Furnishings.....	12,310.18	
Linen, China and Glassware.....	3,912.57	
Interior Alterations.....	9,295.68	
Accounts Payable.....		\$6,295.76
Debenture Bonds.....		20,000.00
Reserve for Doubtful Accounts.....		70.71
Restaurant Income and Expense.....		16,068.56
Bar Income and Expense.....		8,000.57
Cigars Income and Expense.....		4,160.95
Billiards Income and Expense.....		1,827.66
Rooms Income and Expense.....		1,839.56
Annual Dues.....		78,360.00
Entrance Fees.....		4,230.00
Interest on Bank Balances.....		548.62
Cash Variations.....		53.23
Boot Black Stand (net).....		176.80
House Wages.....	16,528.06	
Board of House Employees.....	9,831.57	
House Expense.....	6,865.57	
Fuel.....	3,729.66	
Rent.....	9,000.00	
Stationery and Printing.....	1,342.72	
Expenses of Secretary's Office (including Secretary's Salary, \$3,500).....	6,632.80	
General Office Expenses.....	3,112.14	
Lighting.....	3,142.58	
Repairs and Renewals.....	8,543.80	
Telephone.....	178.11	
Newspapers and Periodicals.....	217.76	
Insurance.....	1,452.36	
Interest on Debentures.....	500.00	
Membership Committee Expenses.....	112.60	
Executive Committee Expenses.....	445.25	
Entertainment Committee Expenses.....	9,415.82	
Publicity Committee Expenses (including Expenses of Printing Monthly Club Bulletin).....	2,276.45	
Reserve for Depreciation of Furniture and Furnishings.....		395.70
Surplus.....		8,712.72
	<u>\$150,740.84</u>	<u>\$150,740.84</u>

COMMENTS ON CERTAIN OF ABOVE ACCOUNTS

(a) *Petty Cash Fund*.—See a discussion of method of handling Petty Cash on page 137.

(b) *Debenture Bonds*.—Unsecured bonds; merely the promise to pay back to the holders thereof the face value of the bonds at a certain date with interest payable annually or semi-annually at a given rate. Their security is dependent entirely upon the credit of the company or institution issuing them. A rather common way for an institution to borrow money in case no real estate is owned or it is desired not to place a mortgage thereon.

(c) *Debenture Sinking Fund*.—A fund created for the redemption of the debenture bonds at maturity. The fund is built up by annual installments paid into the fund from current cash, of such an amount as with interest accumulations will equal the face value of the bonds at maturity.

(d) *Accounts Receivable*.—A controlling account supported by a Members Ledger containing individual accounts with all members. The ledger is in three sections: One for Annual Dues, another for Special Assessments, and a third for the House Accounts which are chargeable with all house bills incurred in the restaurant, bar, cigar counter, and elsewhere.

(e) *Interior Alterations*.—Debited with the original cost of making all alterations necessary to put the building in shape, for occupancy as club rooms; credited annually with one-tenth of the original cost of alterations, by which means, the account is charged off over the life of the lease.

(f) *Reserve for Doubtful Accounts*.—By means of this account provision is made for anticipated losses from uncollectible accounts. Credited annually with a certain per cent. of the accounts receivable, at the same time debiting Anticipated Loss from Bad Debts, an expense account; debited with all accounts actually written off as uncollectible, at the same time crediting the accounts written off.

(g) *Reserve for Depreciation of Furniture and Furnishings*.—By means of this account provision is made for anticipated losses due to replacement of equipment which is discarded as a result of wear and tear, breakage, etc. Credited annually with a certain per cent. of the cost of such equipment, at the same time debiting Depreciation of Furniture and Furnishings, an expense account; debited with the actual loss sustained when equipment is replaced.

(h) *Surplus*.—In the accounts of non-stock companies, the Surplus

account represents the excess of assets over liabilities, and is thus an indication of the financial stability of the institution. If the liabilities exceed the assets, the excess is called a Deficit. In the case of institutions dependent in whole or in part upon public subscription, the margin between assets and liabilities is likely to be rather narrow and it may be that while one year shows a small surplus, another year may show a deficit; as a matter of fact it would be an unwise policy to attempt to accumulate a surplus from year to year, as aid would in all probability be withdrawn should the apparent financial condition of the institution become secure and well established.

The Surplus account is credited with the net income for the year, and with any adjustments which add to the surplus as of a preceding period. It is the policy of some institutions to credit Entrance or Initiation Fees direct to Surplus, rather than to regard them as part of the current income. This practice is to be advised under most circumstances as the purpose ordinarily is to create a certain reserve with the entrance fees, rather than to spend the money thus received as a part of the year's income.

The Surplus account is debited with the net loss for the year and with any adjustments chargeable against the activities of past years.

(i) *Departmental Accounts.*—The income-producing activities of the club are departmentized as follows: Restaurant, Bar, Cigars, Billiards and Rooms. A separate account is kept with each, the account being debited with all expenses and costs directly chargeable to the department and credited with the income produced by the department.

The following schedules give an analysis of charges and credits to each department for the current year. If a ledger account were set up and credited with the revenue or income and debited with the purchases, wages, board of employees and general expenses, the balance of the account would agree with the balance shown in the above trial balance.

An analysis of the Income and Expense account of each of the five income-producing departments of the club for the years 1914 and 1913 shows the following:

RESTAURANT:	1914	1913
Purchases.....	\$79,449.71	\$73,614.75
Wages.....	37,926.56	37,079.57
Board of Employees.....	15,956.25	17,047.24
General Expenses.....	7,089.12	6,591.75
Gross Revenue:		
Members.....	128,514.13	112,639.80
Board of Employees.....	27,976.07	27,377.46

BAR:

Purchases.....	\$11,295.68	\$10,972.57
Wages.....	2,775.01	2,778.73
Board of Employees.....	1,208.75	1,203.50
General Expenses.....	1,208.97	1,046.62
License.....	750.00	500.00
Revenue.....	25,238.98	23,106.35

CIGARS:

Purchases.....	\$16,183.17	\$14,203.30
Expenses.....	20.62	25.69
Revenue.....	20,364.74	17,490.50

BILLIARDS:

Wages.....	\$1,095.47	\$763.01
Board of Employees.....	638.15	447.50
General Expenses.....	43.47	8.60
Revenue.....	3,604.75	3,216.90

ROOMS:

Wages.....	\$712.60	\$316.20
Laundry.....	676.25	247.56
Board of Employees.....	341.35	193.06
Revenue.....	3,569.76	3,092.30

GENERAL COMMENTS

The Chicago Club was organized in 1905 by a number of representative citizens of Chicago. The purpose of the club as set forth in its by-laws is "to bring together in a social way men interested in promoting the welfare of the City of Chicago; to provide a club house where members may meet informally each day; and to arrange frequent meetings at which prominent speakers may be heard, and questions of civic interest discussed."

The club is in every respect a democratic organization, any resident of Chicago being eligible for membership regardless of nationality, religious views, or political persuasion, if in the judgment of the Membership Committee an applicant for admission is qualified to promote the purposes of the club.

The membership is limited to three thousand, the dues being \$20 per year payable in advance; the entrance fee is \$15.

The club is managed by a Board of Governors consisting of twenty-four members, eight of whom are elected each year for a period of three years. The officers of the club are a President, Vice-President, Secretary and Treasurer, all of whom are elected by and from the Board of

Governors. An Executive Committee, Membership Committee and such other committees as may be deemed advisable are also chosen by the Board of Governors from its own members.

The fiscal year of the club ends October 31st; the annual meeting of the members is held on the third Monday in November of each year. At each annual meeting the Treasurer presents a detailed statement of the financial condition of the club, which must be accompanied by the certificate of an auditor appointed yearly by the Board of Governors.

COMMENTS BEARING UPON THE FINANCIAL STATEMENTS

INVENTORIES OCTOBER 31, 1914

Restaurant.....	\$1,465.34
Bar.....	2,300.56
Cigars.....	1,259.47
Stationery on hand.....	75.00
Fuel.....	1,400.00

To provide for depreciation, 10 per cent. of the cost of furniture and furnishings is to be added to the Reserve for Depreciation of Furniture and Furnishings. As all replacements of china, glassware and linen are charged to the Repairs and Renewals account, no reserve for depreciation of this account has ever been set up. It is decided, however, to reduce the Ledger valuation of the account to \$3,500, and to carry it at that amount from this on.

To make provision for uncollectible accounts of members, 1 per cent. of the House Accounts Receivable is added to the Reserve for Doubtful Accounts.

Unexpired insurance amounts to \$874.90; unexpired bar license, \$248; wages accrued but not due are as follows: Restaurant, \$560.52; bar, \$38.60; billiards, \$12.25; rooms, \$9.20; house, \$197.26.

Bills for the annual dues are mailed about October 15 and are payable on or before November 10. On October 31, 929 members had paid their dues for 1915, the amount thus received having been credited to Annual Dues.

Because of the moderate dues charged for membership in the club, and because the Board of Governors was anxious first to establish the club on a sound financial basis, it was decided not to make any plans for a club building for a few years. During this period the policy of the club would become established, some idea of the income which could be expected from the several departments could be obtained, the membership would become settled, and sufficient time could be

given to selecting a site and planning a building. The club accordingly took a ten-year lease of a three-story building which had formerly been used as a small hospital, at a yearly rental of \$9,000. The first two floors comprise the club rooms proper, consisting of lounging room, reading room, library, writing room and dining rooms, while the third floor was made over into suites and single rooms which are rented to members. The expense to the club of making the necessary alterations and improvements previous to occupancy was \$15,492.80 which was charged to Interior Alterations. This account is being written off over the period of the lease at an annual rate of 10 per cent. of the original cost.

November 1, 1910, \$20,000 of Debentures were issued bearing interest at 5 per cent. per annum and maturing November 1, 1920, interest payable May 1 and November 1. The Debentures contain a Sinking Fund clause requiring the Board of Governors or a Sinking Fund committee appointed by the Board to authorize the Treasurer to deposit annually in the State Street Savings Bank such an amount as will equal the par value of the Debentures at maturity, interest on the payments into the fund being compounded semi-annually at 4 per cent. The annual payment into the fund as determined from Sinking Fund Tables amounts to \$1,665.84, which payment is always made immediately preceding the close of the fiscal period. Make entry for the payment of October 31, 1914. On the same date, an amount sufficient to meet the interest coupons due November 1 is deposited in the Lincoln National Bank, at which bank the interest is payable, and you are required to make the necessary entry.

The following are required:

(a) Adjusting entries and adjusted trial balance.

Adjusting entries are those entries necessary at the close of a fiscal period to adjust or correct certain accounts in order that financial statements may be prepared which will show the true financial condition of the business or institution.

Following are the adjusting entries required in this problem; an explanation of the conditions which give rise to such entries will be found in the comments above.

ADJUSTING ENTRIES, OCTOBER 31, 1914

1

Depreciation of Furniture and Furnishings.....	\$1,231.02	
Reserve for Depreciation of Furniture and Furnishings.....		\$1,231.02
To make further provision for depreciation by adding to the present reserve 10 per cent. of the cost of furniture and furnishings.		

2

Surplus.....	\$412.57	
Linen, China and Glassware.....		\$412.57
To charge against Surplus an amount sufficient to reduce the book value of Linen, China and Glassware to \$3,500 at which amount it will be carried from this on.		

3

Anticipated Loss on Bad Debts.....	\$161.55	
Reserve for Doubtful Accounts.....		\$161.55
To make further provision for loss from bad debts by adding to the present reserve 1 per cent. of the House Accounts Receivable.		

4

Insurance Unexpired.....	\$874.90	
Insurance.....		\$874.90
To set up as an asset the amount of unexpired insurance as of October 31, leaving an amount in the insurance account equal to the insurance expense for the year.		

5

Bar License Unexpired.....	\$248.00	
Bar Income and Expense.....		\$248.00
To set up as an asset the amount of unexpired bar license; the account with Bar Income and Expense is now charged only with the amount of bar license applicable to the present year.		

6

Restaurant Income and Expense.....	\$560.52	
Bar Income and Expense.....	38.60	
Billiards Income and Expense.....	12.25	
Rooms Income and Expense.....	9.20	
House Wages.....	197.26	
Salaries and Wages Accrued.....		\$817.83
To charge to the departmental income and expense accounts the wages accrued but not paid to October 31, and to set up such unpaid wages as a liability.		

7

Annual Dues.....	\$18,580.00	
Annual Dues Paid in Advance.....		\$18,580.00
To charge against Annual Dues the dues paid to October 31, which are applicable to the coming fiscal year and to set up such dues as a deferred credit.		

8

Extinguishment of Interior Alterations.....	\$1,549.28	
Interior Alterations.....		\$1,549.28
To charge to a special expense account one-tenth of the cost of interior alterations, the balance of the account being treated as a deferred asset.		

9

Debenture Sinking Fund.....	\$1,665.84	
Cash.....		\$1,665.84
To record the annual payment into the sinking fund for the redemption of bonds.		

10

Interest on Debentures.....	\$500.00	
Cash.....		\$500.00

To record the payment of the semi-annual interest to November 1 on the debenture bonds. (2½ per cent. of \$20,000.)

An adjusted trial balance is one which will reflect the changes in the general ledger trial balance of October 31 made necessary by the adjusting entries. The balances of certain accounts will be changed and new accounts will be added.

The adjusted trial balance should be taken on a sheet of analysis paper at least six columns in width, the trial balance occupying the first two columns.

(b) Working Sheet:

This sheet is prepared on the analysis paper referred to above; following the adjusted trial balance the next pair of columns should be headed Expense and Income respectively, and the two following headed Assets and Liabilities. The balance of each account should then be extended into the proper column; for example, the balances shown by the accounts with the assets should be extended in the column headed Assets; accounts showing an income into the column so headed, etc. A working sheet is a great help in a lengthy statement such as this as it gives a complete analysis of all the accounts and simplifies the arithmetical work of determining the net income or loss and the balancing of the assets and liabilities. This sheet is entirely for the bookkeeper's convenience and is not submitted to any one else.

(c) Your report as Treasurer of the Chicago Club to the Board of Governors, consisting of the following:

1. Presentation Letter
2. Exhibit A—Balance Sheet
3. Exhibit B—Statement of Income and Expenses
4. Exhibit B—Schedule I—Comparative Departmental Operating Statement for 1914 and 1913.

The above gives the order to be followed in making up the report in its final form. The order in which the work would be performed is exactly the reverse Exhibit B, Schedule I being prepared first.

This schedule involves some little arithmetical work and must be prepared with great care. The following illustrates a form suggested for such a schedule and shows as well the actual work required for the Restaurant Department:

ELEMENTS OF ACCOUNTS

CHICAGO CLUB

EXHIBIT B—SCHEDULE I

COMPARATIVE DEPARTMENTAL OPERATING STATEMENT FOR 1914 AND 1913

Restaurant	1914		1913		Increase or decrease *	Per cent. of increase or decrease *
Revenue:						
Members.....	\$128,514.13		\$112,639.80			
Employees.....	27,976.07		27,377.46			
Total Revenue.....		\$156,490.20		\$140,017.26	\$16,472.94	11.77
Expenses:						
Purchases (less Inv'y).....	\$77,984.37		\$73,614.75			
Wages (plus accrued).....	38,487.08		37,079.57			
Board of Employees.....	15,956.25		17,047.27			
General Expenses.....	7,089.12		6,591.75			
Total Expense.....		\$139,516.82		\$134,333.34	\$5,183.48	3.86
Net Income.....		\$16,973.38		\$5,683.92	\$11,289.46	198.62

* Figures denoting decreases shown in red.

Immediately following would come the schedules of revenue and expense for the other departments arranged in a similar manner. The general heading given above applies to all departments and does not need to be repeated.

The statement of income and expense would be begun as follows:

CHICAGO CLUB

STATEMENT OF INCOME AND EXPENSE

NOVEMBER 1, 1913—DECEMBER 31, 1914

Departmental Income: (See Exhibit B—Schedule I.)

Restaurant.....	\$16,973.38
Bar.....	**** **
Cigars.....	**** **
Billiards.....	**** **
Rooms.....	**** **

Other Income:

Annual Dues.....	\$**** **
Entrance Fees.....	**** **
Interest on Bank Balances.....	**** **
Cash Variations.....	**** **
Boot Black Stand.....	**** ** ****

Total Income from all Sources.....

\$*****

This would be followed immediately by a deduction of the various expense items classified under the following heads: House Expense; Office Expense; Committee Expense; General Expense.

The balance sheet presents no difficulties except that care should be used in its form and arrangement and in the classification of accounts.

It is suggested that the assets be classified under the heads of Current Assets; Equipment; Deferred Charges to Profit and Loss.

Liabilities may be classified under the heads of Current Liabilities; Fixed Liabilities; Reserves; Surplus. Under surplus, show the balance at the beginning of the year with credits or debits to the account because of adjustments and of net income, giving the new balance to surplus as of the closing date.

CHAPTER XXI

MISCELLANEOUS REVIEW QUESTIONS

Theory of Accounts:

1. Define double entry bookkeeping and state wherein it differs from single entry.
2. Distinguish between: Asset and Liability; Debit and Credit; Debtor and Creditor; Trial Balance and Balance Sheet.
3. Give a rule to be followed in setting up the opening entry for a double entry set of books.
4. Describe briefly the following books and tell how you would post from them: Cash Book; Purchase Book; Sales Book.
5. Define the following terms and give four different items you would classify thereunder:
 - (a) Current assets.
 - (b) Fixed assets.
 - (c) Current liabilities.
 - (d) Selling expenses.
 - (e) General administrative expenses.
6. What use is made of the Journal in actual work? When is the General Ledger closed? Why and how is it done?
7. Give the method by which you would determine the following:
 - (a) Rate of profit on cost of goods sold.
 - (b) Rate of net profit on investment.
 - (c) Per cent. of gross profit consumed by selling expenses.
 - (d) The number of times a merchant has turned over his stock during a certain period.
8.
 - (a) What are controlling accounts?
 - (b) Give two examples.
 - (c) What economies result from the use of controlling accounts?
9. Define the following terms: Convertible bond; debenture bond; coupon bond; margin; ex-dividend; collateral; brokerage.
10. Define: Endowment insurance; ex-dividend; "rights;" market value.
11. Controlling accounts are kept with Accounts Receivable and Accounts Payable on the books of a certain wholesale merchant.

State the function of each of these accounts, explaining where the postings to each side of the account comes from; explain also how the balance of the controlling accounts are verified.
12. Define the following terms: Net worth; inventory; fiscal period; promissory note; chattel mortgage; endowment insurance; "rights;" endorsement; rate of income.
13. Discuss the Petty Cash Fund according to the following outline: (a) Reason for such a fund; (b) how established; (c) how conducted; (d) how replenished.
14. Define the following terms: Appropriation; budget; endowment; bond; voucher; pay roll.

Banking and Business Practice:

15. (a) Name and describe briefly two or three forms which banks use in rendering statements to depositors.

(b) Your employers, Jones and Smith, have a checking account in the First National Bank. The bank statement for October is received November 1. The balance on the stub of their check book is \$1,962.75. The following checks have not been returned: #242, \$96.70; #409, \$467.26; #378, \$186.73; #400, \$17.16; #390, \$190.71.

Design a form and prepare a reconciliation of the bank statement with the check book.

16. Adams & Bell keep their account in the Boylston National Bank. You are employed by them as bookkeeper. The bank statement for the month of August is received September 1. The balance on the stub of the check book on that date is \$1,962.75. You find the following checks not returned: #312, \$97.60; #319, \$462.76; #327, \$187.53, #328, \$14.76; #329, \$191.41.

Prepare a reconciliation statement, showing the balance which must have appeared on the bank statement.

17. Make out a bill to G. H. Bigelow, 1412 Broadway, New York, N. Y. for the following goods, dating it March 2, 1914. Terms 3 per cent. discount in 10 days, 1 per cent. in 30 days, 60 days net. Your place of business is 412 Chauncey St., Boston.

25 chests Japan	1500# at 23½
15 chests Oolong	1760# at 47½
5 cases Mocha	256# at 32¾
10 bbls. Sugar	3047# at 3.18
10 mats. Java	695# at .29
25 boxes Nutmegs	372# at .30½
27 cans Pepper	at 1.19

18. The following are taken from the books of the Hub Shoe Company:

Sales.....	\$9,624.80
Returned Sales.....	197.60
Purchases.....	6,412.75
Inventory, January 1, 1910.....	3,454.20
Inventory, June 30, 1910.....	3,967.54

(a) Prepare a statement showing Gross Profit on Sales for the period.

19. Charles M. Grover gives Robert W. Gould & Co., his negotiable note for \$632.75 dated May 16, 1914, and bearing interest at 5 per cent. Time, 90 days. Write the note.

20. John B. Prentice gives Henry C. Sprague his check for \$236.97 on the National Shawmut Bank, Boston, Mass. The number of the check is 619 and is dated June 16, 1912. Write the check with stub attached.

21. Make out a bill to James E. Downey & Co., 262 Dudley St., Worcester, Mass., for the following goods, dating it March 2, 1914. Terms, 3 per cent. cash, 1 per cent. if paid within 30 days, 60 days net. Your place of business is 387 Main St., Springfield, Mass.

55 cases Kellooggs.....	\$3.97
25 bbls. Gold Medal.....	5.62½
75 cases Quaker R. O.....	4.05
20 bbls. G. Sugar, 6190#.....	3.92 per C.
32 hf. chts. Japan 1200#.....	.22¾
10 bags Rio 1238#.....	.09½
25 bxs. Cloves 244#.....	.31¼
15 cases Ceylon 740#.....	.48¾

Deduct a trade discount of 5 per cent. on the bill.

22. State the principles upon which the banker's method of figuring interest is based.

23. Henry T. Richards has his account in the Bay State Trust Company, Boston. As his bookkeeper, make up a deposit slip for his deposit of January 16, 1914, consisting of the following items: Bills, \$375; coin, \$38.63; J. M. Wades's check on the Traders' National Bank, Boston, \$187.20; Thomas Riley & Co.'s check on the Old Colony Trust Co., Boston, \$36.75; R. G. Laird's check on the Union Trust Co., Springfield, Mass., \$363.50; Mrs. Henry Love's check on the National Bank of Commerce, New York, \$20; Adams Express Money Order, \$6.80.

24. Find the interest or discount as required in the following, showing all work.

Interest on \$462.65, 100 days, 6 per cent.

Interest on \$712.70, 89 days, 5½ per cent.

Discount on \$500.00 from May 21 to October 3 at 5 per cent.

Discount on \$1,000.00 from January 3 to May 21 at 6 per cent.

25. James E. Wilson, one of our customers, owes a bill of \$197.63 which is four months overdue. He has had several statements to which he has paid no attention. We have written him that we are drawing on him at sight through the State Street Trust Company.

(a) Draw the draft, dating it today.

(b) What entry, if any, would you make?

26. Henry Mills arranges with the Merchants Trust Company for a loan of \$10,000.00 for 60 days at 5½ per cent., his note to be endorsed by Charles A. Marshall. The transaction takes place January 24, 1914.

(a) Write the note.

(b) Show endorsements.

(c) Give entry or entries on Mills' books.

(d) What is the two-fold purpose of an endorsement?

27. What would you practise regarding the following:

(a) Filing paid invoices and bills.

(b) Preserving canceled checks.

(c) Writing checks for less than one dollar.

(d) Reconciling bank account.

(e) Form of endorsement on checks.

(f) Keeping of your personal accounts.

(g) Selection of a bank in which to open an account.

(h) Carrying charge accounts at different stores.

28. (a) What are the advantages of depositing daily the exact amount of cash received that day?

(b) How can this be accomplished when the bank closes at three o'clock and our office is open until five, receipts coming in until closing time?

(c) In what way may the acknowledgment of the bank of each deposit be obtained when no pass book is used?

29. Discuss the following terms of discount, explaining their reference to billing, to the manner of recording on the books, etc.: (a) 2/10, 1/30, n/60; (b) 50, 25, 10 off list.

30. Recommend methods for handling the following in connection with the accounting work for a college:

(a) Banking practice.

(b) Filing canceled checks.

(c) Filing paid bills.

(d) Would you send out original bills to be receipted? Why?

(e) Form of ledger for students' accounts.

(f) Form of receipt issued for money received.

31. Define the following terms: Bank draft; certified check; trade acceptance; statement of account; bill of lading.

Bookkeeping Procedure:

32. We borrow \$500 of Clarence Long on our note at four months, bearing interest at 5 per cent. Four months later we pay the note. Make all necessary entries.

33. Make Journal entries for the following:

(a) December 20, Stanley Baker sold at $67\frac{1}{2}$ ten shares of Capital Fire Insurance stock which cost him 55.

(b) November 24, Freeman Crosby sold for \$4,000, one of five vacant lots on East Street which he bought three years before. He paid \$10,000 for the lots, his taxes have been \$450 and improvements, \$160.

(c) The manager of the Tea Cup Inn catered for a luncheon for Mrs. George Lauder. The bill for \$45 was sent December 1; Mrs. Lauder paid the bill by check on December 5.

(d) Charles Currier discounted at the State Capital Bank on December 17, 1916, James Brown's 90-day note for \$264, with interest at 5 per cent., dated October 18, 1916. Rate of discount 6 per cent.

34. On January 1, 1917, Mary Davis bought from Ruth Spaulding the Forget-Me-Not Tea-Room at Sunapee, N. H. An inventory of the equipment showed: Tables and chairs, \$250; stoves, \$90; kitchen utensils, \$55; silver, glass and china, \$150; linen, \$60; office furnishings, \$200. There are four outstanding bills for catering amounting to \$45.

The cash price agreed upon, including a valuation of \$2,300 for Good Will is \$3,150. As Miss Davis has only \$2,600 in cash she arranges with George Foster to take a chattel mortgage for the remainder on the furniture and equipment, so that she may make the necessary cash payment.

Make the necessary entry to open a set of double entry books for Miss Davis.

35. Henry T. Rose and Frank L. Hosmer entered into partnership January 1, 1912. Rose invested the following: Cash, \$5,800; Stock of goods inventoried at \$26,436.12; Notes Receivable, \$1,600, on which \$17.50 interest is due; Office Equipment, \$950. He owed on open book accounts \$312.87 and had a note outstanding in favor of J. L. Hayward for \$500 on which 92 days' interest has accrued at 5 per cent.

Hosmer invested Real Estate valued at \$45,000 on which there was a mortgage of \$20,000, and cash sufficient to make his investment equal to that of Rose.

Make opening entries.

36. As bookkeeper for the Brown-Howland Grocery Co., you closed your books on December 31, 1912. On January 21, 1913, the manager reports that in taking inventory at the close of the year 200 barrels of King Arthur Flour which cost \$4.82 per barrel were overlooked and consequently were not included in the inventory. The manager asks you to make an adjusting entry.

37. Make adjusting entries for the following as of December 31, 1916.

- (a) Taxes accrued \$200.
- (b) Wages accrued \$567.50.
- (c) Interest accrued on Notes Receivable, \$72.50.
- (d) Rent prepaid for January, 1917, \$500.

38. Journalize the following: October 3, the Deerfield Library received a cash gift \$5,000 from Patrick L. Sullivan, the income to be used in the purchase of standard Catholic Books. October 16, the money was invested in stock of the Commercial Bank at \$260 per share. December 1, a quarterly dividend at the rate of 12 per cent. per annum was received on the bank stock.

39. Miss E. S. Bates buys an art shop of F. W. Lamoreaux for \$2,000. An inventory of stock and equipment shows the following items: Stock of goods, \$1,210; furniture and fixtures, \$500; accounts receivable, \$412.80. John M. Leonard holds a chattel mortgage of \$600 on the business, which Miss Bates assumes; she also assumes accounts payable of \$290.75; she pays \$1,200 in cash and gives her note for one year for the remainder of the purchase price, bearing 6 per cent. interest. Make opening entry in the books of Miss Bates.

40. (a) What entry would you make for stamps received from a customer in settlement of his account?

(b) What would you do in case a customer sent you a check in settlement of his account for \$5.00 too much?

(c) What would be your procedure in case your trial balance was out \$9.87?

41. The W. L. Rogers Company has an account with Reserve for Depreciation of Office Equipment, which is credited at the time of closing the books with the estimated depreciation of the office equipment. This account now shows a credit of \$632.80. June 21, the company purchased a new safe costing \$600, and was allowed \$125 for the old one taken in exchange. The old safe cost \$400. Make necessary entries.

42. A certain institution exchanged its five old pianos for new ones, paying \$195 each in cash for the new ones, the allowance for the old ones being \$75. The average cost of the old ones was \$250. The pianos were carried in the Furniture and Equipment account at cost.

(a) What entry would you make for the purchase and exchange, if no Reserve for Depreciation account is kept?

(b) If a Reserve for Depreciation account is kept?

43. December 31, 1914, at the time of closing the books, A. S. Fowle & Co., set aside $1\frac{1}{2}$ per cent. of accounts receivable as a reserve for bad debts. The balance shown by the accounts receivable account on that date was \$62,747.93.

June 30, the accounts of R. W. Rollins & Co. for \$137.20 and of John C. Cutter for \$42.25 are written off, as repeated attempts have been made to collect them and it is not thought worth while to bring suit against them.

September 1, a final dividend of 20 per cent. from trustees in bankruptcy for Thomas Knight on a claim of \$638.20 was received. Previous to this, dividends of 30 per cent. and 20 per cent. had been received.

Make the necessary entries covering above transactions.

44. Amherst College received a bequest by will of \$100,000 from the estate of D. Willis James, to be known as the Seelye Fund. The fund was invested in Penn. R. R. 3½'s in denominations of \$100 at 93½ and usual brokerage.

Make entries showing the receipt of the bequest, the investment of the same, and the entry for the first income received from the investment.

How much of an uninvested balance remained?

45. A. B. Curtis, 10 Main St., Worcester, Massachusetts, received an income during the calendar year from the following sources: Salary, \$5,000; dividends on stock (all from stock of Massachusetts corporations), \$1,150; interest on bonds, \$687.50; profit on trading in stocks, \$1,400. He is married and has one child twelve years old.

(a) What amount of tax should he pay to the Federal government?

(b) What amount of tax should he pay to the State of Massachusetts?

Accounting Systems:

46. The Lenox Club maintains a dining room for members to whom books of coupons are sold, each coupon being good for a club luncheon; each book contains 10 coupons and costs \$4.50. Coupons are good until used. In order to determine at the close of the fiscal year the liability of the club on account of outstanding coupons, it is necessary to keep a record of coupons canceled.

Design and give sufficient explanation of a system by which this could be done with the minimum of work. The system is to be kept up by the cashier, a woman with no training in bookkeeping.

47. You have been selected as the matron of the Students' Club, a private dormitory for young men attending different schools and colleges in a certain city. You are financially responsible to the owners of the property who conduct it purely as a business enterprise. You are to keep the accounts and render a monthly statement to the owners.

Outline an accounting system to be kept by double entry, giving particular attention to the following points:

(a) Importance of a proper system of accounts.

(b) General ledger accounts.

(c) Books of account.

(d) Form of financial statements.

48. A college charges a registration fee of \$25 payable in advance. This fee applies on the first installment of tuition due October 1, but is forfeited if the student does not register at the opening of college in September. The college closes its books August 31.

Suggest in detail how you would handle these fees on your books. If any special account or accounts are recommended, state the function of such an account. Use imaginary figures, if you can make your demonstration clearer thereby.

49. State definitely how you would proceed in opening an entirely new set of books, starting with your first conversation with your employer regarding such work and continuing until the books were opened and ready for use. If it will aid you in answering the question, select some simple type of business or institution for illustration.

50. State definitely what you would do upon taking a position in which a part of your work consisted in keeping the accounts. Assume that the books had been opened for some time and that no change in the method of keeping them was desired.

51. (a) Design with care a Voucher Register, containing besides all other necessary columns, the following money columns: Vouchers Payable, Materials, Freight, Labor, Manufacturing Expenses, Selling Expenses, Administrative Expenses, Sundry Debits.

(b) Make at least four entries illustrating the use of the various columns.

(c) State how you would post from the book.

(d) What advantages are claimed for the Voucher System?

52. (a) Of what advantage are books with special columns?

(b) Design a columnar Cash Book for use in a wholesale business in which a Sales Ledger is kept and in which certain classes of receipts and expenditures occur with great frequency.

53. You have charge of the accounts in a private school for girls. As an accommodation to the pupils and as a means of developing businesslike habits, the school accepts deposits from pupils against which they may draw from time to time to meet their personal expenses. This scheme proves to be popular among the girls and the details connected with handling the deposits add considerably to the office work.

In order better to systematize the work you are asked to recommend a method of handling such accounts which will involve as little clerical work as possible consistent with sound accounting principles. You are asked particularly to make recommendations on the following points:

(a) Pass book issued to pupils opening accounts or separate receipts for each deposit.

(b) Method of making withdrawals.

(c) Design form of ledger card for such accounts.

(d) The banking of such deposits.

(e) Design book in which records of daily deposits and withdrawals would be kept.

(f) How would such accounts appear in the balance sheet prepared by the school at the end of the fiscal year?

54. You are in charge of a private dormitory in a large city housing students attending various educational institutions in the city. The boarders are charged a certain rate per week for room and board, and miscellaneous charges are also made for extra food, long distance telephone calls, postage, C. O. D. packages, etc. Outline a simple method of making the proper charges against each person's account, giving a diagram of the book through which such charges would be made. Also give a diagram of a ledger card suitable for boarders' accounts.

55. You are in charge of a high school lunch room. You do all buying; the sale of lunch tickets is under your supervision; the money received is turned over to the principal and all bills are paid from his office after they have been approved by you. Outline a simple way by which you could determine monthly the profit or loss from the lunch room.

Financial Statements and Schedules:**56 TRIAL BALANCE, DECEMBER 31, 1916**

C. D. Johnson, Capital.....	\$677.00	\$12,770.48
Cash.....	5,648.77	
Purchases.....	20,312.60	
Sales.....		16,135.04
Notes Receivable.....	2,000.00	
Notes Payable.....		5,909.00
General Expense.....	475.00	
Real Estate.....	7,000.00	
Furniture and Fixtures.....	327.00	
Interest.....	86.45	
Merchandise Discount.....		54.65
Accounts Receivable.....	2,100.00	
Accounts Payable.....		3,756.65
	<u>\$38,625.82</u>	<u>\$38,625.82</u>

Merchandise on hand, \$6,764.50; coal on hand, \$125.

- (a) Prepare Profit and Loss Statement. (b) Balance Sheet.
(c) Make Closing Entries.

57. From the following trial balance of December 31, 1916, prepare a Profit and Loss Statement, Balance Sheet, and Closing Entries:

John Sanders (Proprietor).....	\$2,040.00	\$30,910.67
Purchases.....	49,813.15	
Sales.....		36,400.60
General Expense.....	1,524.27	
Advertising.....	525.73	
Salaries.....	1,920.00	
Furniture and Fixtures.....	2,210.00	
Traveling Expenses.....	550.00	
Real Estate.....	8,200.00	
Office Supplies.....	300.00	
Accounts Receivable.....	9,030.30	
Accounts Payable.....		8,646.45
Notes Receivable.....	1,297.40	
Notes Payable.....		2,400.75
Cash.....	947.62	
	<u>\$78,358.47</u>	<u>\$78,358.47</u>

Inventory, December 31, 1916, \$18,720.48; office supplies on hand \$150.

58. The ledger of E. E. Gaylord shows the following balances as of December 31, 1912:

E. E. Gaylord, Capital, Dr., \$677; Cr., \$12,770.48; Cash, \$5,647.77; Purchases, \$20,312.60; Sales, \$16,135.04; Bills Receivable, \$2,000; Bills Payable, \$5,909; General Expense, \$275; Selling Expense, \$200; Real Estate, \$7,000; Furniture and Fixtures, \$327; Interest (paid to others), \$86.45; Merchandise Discount (allowed us), \$54.65; Accounts Receivable, \$2,100; Accounts Payable, \$3,756.65.

Inventories: Merchandise, \$8,764.50; Coal on hand, \$28.45.

- a. Construct Trial Balance.
- b. Prepare Profit and Loss Statement.
- c. Prepare Balance Sheet.
- d. Make Closing Entries.
- e. Show Gaylord's account in the ledger properly closed.

59. Copy the following ledger accounts on journal paper and supply appropriate figures for the trial balance of June 30, 1912. Purchases were \$9,880.22; Sales, \$14,-862.30.

- | | |
|-----------------------------------|--------------------------|
| 1. Cash | 11. Purchases |
| 2. Notes Receivable | 12. Sales |
| 3. Accounts Receivable | 13. Office Supplies |
| 4. Real Estate | 14. Rent |
| 5. Office Furniture and Equipment | 15. Salaries and Wages |
| 6. Good Will | 16. Advertising |
| 7. Notes Payable | 17. General Expense |
| 8. Accounts Payable | 18. Interest |
| 9. Mortgages Payable | 19. Merchandise Discount |
| 10. Elmer F. Nichols, Capital | |

60. From the data given below, prepare a statement or statements suitable for publication as a part of the report of the treasurer of Dartmouth College. The period covered is one year ending June 30, 1911. The items all relate to Hanover Inn, which is conducted by the college.

Rooms and meals.....	\$42,634.24	Banquets.....	\$1,718.50
Cigars.....	816.98	Rental of barber shop.....	459.96
Telephone rebates.....	8.71	Food.....	21,617.12
Garage receipts.....	927.58	Salary of Manager.....	1,100.00
Wages.....	12,404.44	Water.....	134.23
Printing, postage, and telephone	1,041.67	Ice.....	646.82
Fuel.....	2,269.78	Lighting.....	667.55
Rent.....	2,786.67	Taxes.....	385.70
Insurance.....	538.78	Repairs and renewals.....	2,945.20
Food inventory, June 30,....	816.45	Miscellaneous inventories.....	331.50
Accounts receivable.....	2,047.21	Advanced by Dartmouth Col- lege.....	2,092.87
Cash on hand.....	104.69		
Wages accrued.....	300.00		
Accounts payable.....	999.85		

61. You are engaged as house superintendent of a private dormitory. The dormitory contains accommodations for fifty students who pay an average fee of \$575 per year, remaining in residence thirty-six weeks. Of the amount paid by each person, \$125 is set aside as payment for the room occupied. The income from transients amounted to \$200 the previous year. The land and building are owned by a real estate trust and cost \$100,000. The property is assessed for \$75,000 and the tax rate is \$17 per thousand. Insurance is \$200; repairs, \$200; fuel and light, \$1,500; water tax, \$150; service, \$5,200; the owners expect a 10 per cent. return on their investment. Determine your per capita allowance for food supplies per week.

Are there any expenses which should be taken into account other than those given?

62. The cash book of the Reading Public Library shows the following summary of receipts and disbursements:

Balance of cash December 1, 1915, \$3.99; fines, \$962.50; sales of catalogues, \$93.78; dog licenses, \$2,386.20; city appropriation, \$37,000; withdrawn from income of Black Fund to repay amount previously borrowed from general fund, \$29.91.

The expenses included: binding, \$2,965.07; printing, \$396.39; freight and express, \$510.50; removing ashes and sprinkling streets, \$120.85; postage, \$360.20; catalogue cards, \$53.46; fuel and electricity, \$2,960.20; water, \$542.60; salary and expenses of librarian, \$3,541.66; salaries of staff, \$12,640.25; wages of janitors and watchmen, \$2,487.57; insurance, \$561.31; books, \$8,980.31; finding list, \$233.

Prepare for the printer a statement of cash receipts and disbursements, showing the balance on hand November 30, 1916. Give particular attention to the form and arrangement and to the preparation of a finished piece of work.

63. The following schedule represents the estimated income and expense for December of a certain shop, prepared at the beginning of the month:

Income.....	\$113,000.00
Salaries.....	31,400.00
Cost of merchandise sold.....	55,370.00
Overhead.....	10,400.00
Other expenses.....	8,475.00

The actual figures for the month were as follows:

Income.....	\$111,385.86
Salaries.....	31,383.88
Cost of merchandise sold.....	55,952.07
Overhead.....	10,385.61
Other expenses.....	8,943.04

Prepare a table showing estimated and actual figures, increase or decrease, and per cent. of increase or decrease.

64. The following figures are taken from the books kept by a lunch room and show income and operating items for the months of February, 1916 and 1917.

The 1916 figures are as follows:

Lunch sales, \$3,062.28; food sales, \$2,386.08; food supplies used, \$2,656.55; pay roll, \$1,395.93; packing supplies, \$39.40; ice, \$25.65; crockery and glassware replaced, \$23.61; light, \$24.75; repairs, \$15.89; cleaning supplies, \$14.33; delivery and express, \$42.04; stationery and printing, \$9.58; telephone, \$11.06; rent, \$178.33; laundry, \$65.72; fuel, \$78.91.

The 1917 figures are as follows:

Lunch sales, \$3,011.65; food sales, \$1,996.95; food supplies used, \$2,317.52; pay roll, \$1,472.22; packing supplies, \$90.77; laundry, \$62.32; fuel, \$65.39; ice, \$25.85; crockery and glassware replacements, \$61.43; light, \$37.15; repairs, \$3.48; cleaning supplies, \$14.29; delivery and express, \$36.62; stationery and printing, \$16.24; telephone, \$11.99; rent, \$183.33.

(a) Prepare a comparative statement of income and expense for February, 1917 and 1916, showing increases and decreases. (b) Prepare a table showing what per cent. of the sales in each year went for food, salaries, other expenses, and profit.

65. From the data given, prepare a schedule to be known as Schedule C-2, which is to become a part of the treasurer's report of Rockford College, showing the net profit or loss resulting from the publication of Rockford Quarterly. Gift from alumnae, \$100; printer's bills, \$425.09; 50 annual subscriptions at 35c.; sales of single copies, \$2.85; editing, \$100; distribution expense, \$35.19.

66. The sales of a lunch room for the month of May were \$1,562.80. During that period provisions were purchased to the amount of \$462.50; wages of employees, \$504.12; the inventory of provisions at the beginning of the month was \$197.65 and at the end of the month, \$217.56.

Prepare a statement showing the gross profit on sales.

67. James Wilson buys out a certain business on January 1, 1916, on which date the business showed the following assets and liabilities:

ASSETS		LIABILITIES	
Cash.....	\$225.00	Notes Payable.....	\$2,185.00
Accounts Receivable.....	6,750.00	Mortgages Payable.....	5,000.00
Notes Receivable.....	800.00	Accounts Payable.....	2,550.00
Merchandise.....	10,160.00	James Wilson Capital.....	19,000.00
Real Estate.....	10,000.00		
Furniture and Fixtures.....	750.00		\$28,735.00
Office Supplies.....	50.00		
	<hr/>		
	\$28,735.00		

Six months later, the books of the business were closed and financial statements prepared, showing a net profit of \$1,748 and the following assets and liabilities:

ASSETS		LIABILITIES	
Cash.....	\$101.50	Notes Payable.....	\$2,300.00
Accounts Receivable.....	8,100.75	Mortgages Payable.....	5,000.00
Notes Receivable.....	500.00	Accounts Payable.....	3,000.00
Merchandise.....	11,450.25	James Wilson Capital.....	20,748.00
Real Estate.....	10,000.00		
Furniture and Fixtures.....	875.50		\$31,048.00
Office Supplies.....	20.00		
	<hr/>		
	\$31,048.00		

In studying the financial statements at the beginning and close of the period, Mr. Wilson notes among other things that his cash account has decreased while his liabilities have increased. In view of these things, he is curious to know what has become of the profit which his bookkeeper informs him the business shows.

Prepare such a statement or report as will give Mr. Wilson the information he desires.

68. Mr. Douglas I. Mann is the proprietor of a business conducted under the name of "Mann, the Florist." He keeps his accounts by double entry, and included with his business accounts are several which relate to his outside investments. The following trial balance was taken as of June 30, 1914, and shows the condition of the accounts on that date.

Douglas I. Mann, Capital.....		\$100,000.00
Douglas I. Mann, Personal.....	\$5,391.80	175.00
Cash.....	81,359.64	80,083.94
Accounts Receivable.....	92,707.75	75,923.40
Notes Receivable.....	5,980.00	960.00
Huntington Apartments.....	36,735.00	
Maintenance and Income, Huntington Apartments.....	3,275.91	7,661.28
Securities Owned.....	20,837.86	1,570.00
Income from Securities Owned.....		1,446.29
Purchases.....	115,361.36	2,299.20
Sales.....	1,808.17	126,034.31
Wages.....	2,891.52	
Advertising.....	150.80	
Office Supplies.....	92.57	
Office Wages.....	2,400.00	
Longwood Avenue Land (vacant property).....	10,352.00	
Notes Payable.....	4,750.00	6,101.00
Accounts Payable.....	86,295.45	90,330.60
General Administrative Expense.....	2,930.00	17.00
Mortgage Payable.....	2,000.00	27,000.00
Freight and Express Inward.....	728.43	
Interest on Notes Payable.....	407.61	
Maintenance Expense—187 Boylston St.....	1,200.00	
Interest on Notes Receivable.....		319.48
Cash Variations.....	170.72	151.19
Office Furniture and Equipment.....	570.00	92.00
General Equipment.....	4,725.80	
Delivery Expense.....	471.86	
Miscellaneous Income.....	58.00	2,512.56
Delivery Equipment.....	2,400.00	375.00
187 Boylston Street.....	37,000.00	
	<u>\$523,052.25</u>	<u>\$523,052.25</u>

A review of the transactions for the year reveals errors made by the bookkeeper, together with certain accruals which require adjustment previous to preparing the necessary financial statements:

On January 3, ten shares of Rollo Press Company stock were sold at 55½ which previously cost 30. The selling price of the stock was credited to the Securities Owned account.

March 15, a bill of \$112 for repairs to the Huntington Apartments was charged to Huntington Apartments.

April 15, a desk which cost \$65 was exchanged for a larger one costing \$100. The dealer allowed \$25 for the desk taken in exchange. The bookkeeper charged the Office Furniture and Equipment account with the net cost of the new desk.

Interest on the mortgage is paid to April 1, at 5½ per cent. The accrued interest is to be taken into account; wages accrued but not due amount to \$147.

The following operations are required:

1. Adjusting entries covering the data given above.
2. Profit and Loss Statement. This statement should show business profits supplemented by the income from outside investments, with a net result equal to the net profit for the year from both sources.

The inventory of goods and supplies on hand amounts to \$18,906.50.

The Mortgage Payable account is a mortgage on the Huntington Apartments. The property at 187 Boylston Street is used for business purposes.

3. Balance Sheet. Classify assets under the sub-headings "Business Assets" and "Personal Assets."

4. Explain in detail for what the following accounts would be debited and credited, and what the balance of each represents:

- (a) Douglas I. Mann, Personal.
- (b) M. & I., Huntington Apartments.
- (c) Securities Owned.
- (d) Longwood Avenue Land.
- (e) Mortgage Payable.
- (f) Delivery Equipment.

CHAPTER XXII

MODEL EXERCISE AND MODEL FORMS

The following exercise consists of a series of transactions running through the month of January and illustrative of a simple wholesale business conducted by J. B. Holland.

In the illustrations of the books of original entry which follow, these transactions are shown as having been recorded in the journal, cash book, purchases journal, and sales journal. The work is then shown posted to the ledger, after which a trial balance has been taken, financial statements prepared, and the ledger closed.

As a preliminary study of the books of original entry used, and of the process of posting, taking a trial balance, preparing statements and closing the ledger, it is suggested that the following work be done as a class exercise:

- (a) Trace all transactions into their proper books of entry.
- (b) Observe the closing of each book preparatory to posting.
- (c) Trace the posting of each debit and credit to the proper ledger accounts.
- (d) Follow the process of taking the trial balance.
- (e) Study the construction of the financial statements. In preparing the statements the inventory of merchandise as of January 31 is stated at \$4850.
- (f) Study the closing entries, follow their posting to the ledger, and the balancing of the ledger accounts.

1. J. B. Holland begins business as a wholesale merchant, investing cash, \$5000.
2. Paid rent for January in cash, \$300.
2. Bought for cash office furniture and equipment, \$750.
3. Purchased goods from Babb & Co. for \$1250, terms net cash 1%.
3. Bought goods from A. W. Macomber for \$748.50, terms 1%, 30 days.
4. Sold a bill of goods to Partridge & Co. for \$450, terms, 1%, 10 days.
5. Sold goods to G. H. Moore for \$367.48, terms on account, 10 days.
6. Sold goods to Richard Baker Co., \$472.50, terms on account, 10 days.
6. Cash sales for the week, \$145.75.
8. Paid salaries of office help, \$50; salesmen, \$200.

8. Paid Babb & Co. for bill of the 3d, less 1%.
9. Sold Partridge & Co. a bill of goods, \$175, terms on account, 30 days.
10. Sold Richard Baker Co. goods amounting to \$270, terms on account, 30.
10. Bought goods of A. J. Wilkinson Co., 1% 30 days, \$1049.75.
11. Purchased from Babb & Co. goods, \$1475, terms 15-day note.
12. Sold G. H. Moore on account goods for \$254.70.
13. Give Babb & Co. a 15-day note dated January 11th in payment of invoice of 11th.
13. Received cash of Partridge & Co. for bill of 4th less 1%.
15. Received of G. H. Moore a 10-day note with interest for \$250 and a check in payment of bill of 5th.
15. Paid salaries for last week; office, \$50; salesmen, \$200.
16. Received of Richard Baker & Co. \$300 on account.
16. Received of G. H. Moore \$150 on account.
16. Bought of A. W. Macomber goods amounting to \$1575.
17. Bought of A. J. Wilkinson Co. goods amounting to \$2500.
17. Sold to Partridge & Co. goods to the amount of \$945.70 terms 10-day note.
18. Sold to G. H. Moore goods to the amount of \$845.42.
18. Received of Partridge & Co. a 10-day note with interest, dated January 17, for bill of the 17th.
19. G. H. Moore sends a check on account, \$500.
20. Cash sales to date amount to \$347.65.
20. Paid A. W. Macomber for bill of 4th less 1%.
Paid A. J. Wilkinson for bill of 10th less 1%.
22. Bought of Babb & Co. goods amounting to \$947.50.
22. Paid salaries to January 10th; office, \$50; salesmen, \$200.
Sold to Richard Baker Co. goods amounting to \$1250.20.
J. B. Holland draws \$100 on account of salary.
23. G. H. Moore reports some of goods of last shipment were poorly packed and arrived in damaged condition. We allow him credit, \$50 and send credit memorandum.
23. J. B. Holland takes goods from stock for personal use, cost, \$140.
23. We return to Babb & Co. goods not like sample and unsatisfactory, \$150.
24. Sold Partridge & Co. goods amounting to \$874.62.
25. Sold G. H. Moore goods amounting to \$547.50.
26. Bought of A. W. Macomber merchandise, \$540.
26. Give cash on a/c A. W. Macomber, \$500.

26. Paid our note and interest favor Babb & Co. due today.
26. Received cash of Richard Baker Co. for balance due on bill of 6th.
27. Received cash of Partridge & Co. in payment of note and interest due today.
29. Paid salaries for past week; office, \$50; salesmen, \$200.
Richard Baker Co. sends check on account, \$800.
G. H. Moore sends check on account, \$400.
30. Cash sales to date, \$142.50.
Borrowed from bank \$1000 giving note for 60 days with interest.
31. Pay sundry office expense bills, \$79.50.
Pay A. J. Wilkinson on account, \$1250.
Received cash of Partridge & Co. for bill of 9th, \$175.

January 1, 1919.

		J.B. Holland begins business this day as a wholesale merchant investing cash \$5,000.00 (see cash book)				
2		Babb & Co.	17.50			
4		Discount on Purchases 1% discount on bill of Jan. 3rd			17.50	
		13				
2		Babb & Co.	147.5			
2		Notes Payable Gave a 15 day note with interest in payment of bill of the 11th.			147.5	
		13				
4		Discount on Sales Partridge & Co. Allowed 1% discount on bill of the 4th.	4.50			4.50
		15				
2		Notes Receivable E.H. Moore Rec'd a 70 day note with interest on account.	7.50			7.50
		18				
2		Notes Receivable Partridge & Co. Rec'd a 10 day note with interest dated Jan. 17 for bill of the 17th.	945.70			945.70
		20				
2		A.H. Macomber	749			
3		A.J. Wilkinson	1050			
4		Discount on Purchases Discounts of 1% taken on invoices of 4th and 10th.			1799	
		22				
3		Sales E.H. Moore Allowance on damaged goods	50			50
		23				
3		J.B. Holland, Capital	140			
2		Purchases Mr. Holland takes from stock for private use merchandise \$140.00			140	
		23				
2		Babb & Co.	150			
2		Purchases Returned goods as not equal in quality to sample			150	

MODEL 1.—JOURNAL.

Cash Receipts

DATE	LF	ACCOUNTS CREDITED	EXPLANATION	CASH DR.	TOTAL
Jan	1	3 J.B. Holland	Investment	5000	
	6	3 Sales	Cash sales	145 75	
	13	7 Partridge & Co.	Bill of the 1st ch.	445 50	
	15	1 J.H. Moore	Balance on bill of 1st ch.	117 48	
	16	1 Richard Baker Co.	On account	300	
	16	1 J.H. Moore	On account	150	
	19	1 J.H. Moore	On account	500	
	20	3 Sales	Cash sales	347 65	
	26	1 Richard Baker Co.	Balance on bill of 6th ch.	172 50	
	27	2 Notes Receivable	Partridge & Co. note	945 70	
	27	4 Interest on Notes Receivable	On above note	158	
	29	1 Richard Baker Co.	On account	800	
	30	3 Sales	Cash sales	147 50	
	30	2 Notes Payable	Bank loan	1000	
	30	1 J.H. Moore	On account	400	
	31	1 Partridge & Co.	Bill of the 9th ch.	175	
	31	1 Cash (Dr.)	Total receipts		10643 66
					10643 66
Feb.	1	Balance			2167 71

MODEL 2.—CASH BOOK—LEFT PAGE.

Cash Disbursements.

DATE.	LF	ACCOUNTS DEBITED	EXPLANATION	CASH CR.	BALANCE AND TOTAL.
Jan	7	3 General Adm. Expenses	Rent	3 00	
	7	1 Furniture & Fixtures	Office equipment.	75 00	
	8	3 General Adm. Expenses	Office salaries	50	
	8	3 Selling Expenses	Salesmen's salaries	2 00	
	8	7 Babb & Co.	Bill of the 3rd.	1237 50	
	15	3 General Adm. Expenses	Office salaries	50	
	15	3 Selling Expenses	Salesmen's salaries	2 00	
	20	7 A. H. Macomber	Bill of the 20th.	741 01	
	20	3 A. J. Wilkinson Co.	Bill of the 10th.	1039 75	
	22	3 General Adm. Expenses	Office salaries	50	
	22	3 Selling Expenses	Salesmen's salaries	2 00	
	22	7 J. B. Holland, Capital	For private use	1 00	
	26	7 Notes Payable	Babb & Co. note.	1475	
	26	4 Interest on Notes Payable	On above note.	369	
	26	7 A. H. Macomber	On account	5 00	
	29	3 General Adm. Expenses	Office salaries	50	
	29	3 Selling Expenses	Salesmen's salaries	2 00	
	31	3 A. J. Wilkinson	On account	1250	
	31	3 General Adm. Expenses	Sundry office expenses	79 50	
	31	1 Cash (Cr.)	Total disbursements		8475 95
	31	Balance			2107 71
					10623 66

ELEMENTS OF ACCOUNTS

Purchases Journal

[illegible]

MODEL 3.—PURCHASE JOURNAL.

Sales Journal

DATE	LF	NAME OF CUSTOMER.	ADDRESS	TERMS	SALES No.	SALES AMT.
Jan	4	Partridge & Co.	Salem, Mass.	On 4c	1	450
	5	G. H. Moore	Concord, N. H.	10 da.	2	367.48
	6	Richard Baker Co.	245 Main St., City.	10 da	3	477.50
	9	Partridge & Co.	Salem, Mass.	30 da.	4	175
	10	Richard Baker Co.	City	30 da	5	270
	12	G. H. Moore	Concord, N. H.	On 4c	6	284.70
	17	Partridge & Co.	Salem, Mass.	10 da. note	7	945.70
	18	G. H. Moore	Concord, N. H.	On 4c	8	145.40
	22	Richard Baker Co.	City	On 4c	9	1750.22
	24	Partridge & Co.	Salem, Mass.	30 da.	10	574.62
	25	G. H. Moore	Concord, N. H.	30 da.	11	547.50
	31	3 Sales (Gr.)				6,453.12

MODEL 4.—SALES JOURNAL.

ELEMENTS OF ACCOUNTS

Notes Receivable

19-	Jan.	15		J. 1	750	19-	Jan.	27		Cr. 2	945 70
		18		J. 1	945 70			31	Balance		750
					1195 70						1195 70
Feb.		1	Balance		750						
<i>Purchases</i>											
19-	Jan.	31		P. 4	10085 75	19-	Jan.	20		J. 1	140
								23		J. 1	150
								31	Cost of Sales Inventory	J. 2	4945 75
					10085 75						4850
Feb.		1	Inventory		4850						10085 75
<i>Notes Payable</i>											
19-	Jan.	26		Cr. 3	1475	19-	Jan.	13		J. 1	1475
								30		Cr. 2	1000
<i>Babb & Co.</i>											
19-	Jan.	8		Cr. 3	1237 50	19-	Jan.	3		P. 4	1250
		8		J. 1	1250			11		P. 4	1475
		13		J. 1	1475			22		P. 4	947 50
		23		J. 1	150						
		31	Balance		797 50						3677 50
					3677 50			Feb. 1	Balance		797 50
<i>A. H. Macomber</i>											
19-	Jan.	20		Cr. 3	741 01	19-	Jan.	3		P. 4	748 50
		20		J. 1	749			16		P. 4	1575
		24		Cr. 3	500			26		P. 4	540
		31	Balance		1615						2863 50
					2863 50			Feb. 1	Balance		1615

A. J. Wilkinson

19- Jan. 20		C. 3	1039 75	19- Jan. 10		P. 4	1049 75
20		J. 1	1050	17		P. 4	7500
31		C. 3	1250				
31	Balance		1250				
			3549 75				3549 75
				Feb. 1	Balance		1250
<i>J. B. Holland, Capital</i>							
19- Jan. 22		C. 3	100	19- Jan. 1		C. 2	5000
23		J. 1	140	31	Net Profit	J. 2	737 65
31	Balance		5497 65				
			5737 65				5737 65
				Feb. 1	Balance		5497 65
<i>Sales</i>							
19- Jan. 23		J. 1	50	19- Jan. 6		C. 2	145 75
31	Cost of Sales	J. 2	4945 75	20		C. 2	347 65
31	Gross Profit	J. 2	2093 27	30		C. 2	147 50
			7089 02	31		S. 4	6453 12
							7089 02
<i>Selling Expenses</i>							
19- Jan. 8		C. 3	200	19- Jan. 31	P. 22	J. 2	800
15		C. 3	200				
22		C. 3	200				
29		C. 3	200				
			800				800
<i>General Administrative Expenses</i>							
19- Jan. 2		C. 3	300	19- Jan. 31	P. 22	J. 2	579 50
8		C. 3	50				
15		C. 3	50				
22		C. 3	50				
29		C. 3	50				
31		C. 3	79 50				
			579 50				579 50

ELEMENTS OF ACCOUNTS

Discount on Sales

19- Jan. 12		J. 1	4.50	19- Jan. 31	P. & L.	J. 2	4.50
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Discount on Purchases

19- Jan. 31	P. & L.	J. 2	30.49	19- Jan. 8		J. 1	12.50
				70		J. 1	1.799
			30.49				30.49

Interest on Notes Receivable

19- Jan. 31	P. & L.	J. 2	1.58	19- Jan. 27		J. 2	1.58
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Interest on Notes Payable

19- Jan. 26		J. 3	3.69	19- Jan. 31	P. & L.	J. 2	3.69
----------------	--	------	------	----------------	---------	------	------

Profit and Loss

19- Jan. 31	Selling Expenses	J. 2	8.00	19- Jan. 31	Gross Profit	J. 2	2093.27
31	Gen. Adm. Expenses	J. 2	579.50		Disc't on Purchases	J. 2	30.49
	Disc. on Sales	J. 2	4.50		Int. on Notes Recv.	J. 2	1.58
	Int. on Notes Pay.	J. 2	3.69				
	J. B. Holland, Capital		727.65				
			2125.34				2125.34

MODEL 5 (CONCLUDED).

J. B. Holland

Trial Balance, January 31, 19--

1	Cash	2167 71	
1	Partridge & Co.	874 62	
1	E. K. Moore	547 62	
1	Richard Baker Co.	720 20	
1	Furniture & Fixtures	750	
2	Notes Receivable	750	
2	Purchases	9745 75	
2	Notes Payable		1000
2	Babb & Co.		797 50
2	Alt. Macomber		1615
3	A. J. Wilkinson		1250
3	J. B. Holland, Capital		4760
3	Sales		7039 02
3	Selling Expenses	800	
3	General Administrative Expenses	579 50	
4	Discount on Sales	450	
4	Discount on Purchases		3049
4	Interest on Notes Receivable		158
4	Interest on Notes Payable	369	
		<u>16493 59</u>	<u>16493 59</u>

MODEL 6.—TRIAL BALANCE.

ELEMENTS OF ACCOUNTS

J.B. Hollands

Profit and Loss Statement, January 1 - 31, 1919

Sales		\$ 7089.02	
Less:			
Returned Sales		50	
Net Sales			\$ 7089.02
Cost of goods sold:			
Purchases		10085.75	
Less:			
Returned Purchases	\$ 1.50		
Charged to Suppliers	100	290	
Net Purchases		9795.75	
Less:			
Inventory, January 31, 1919		4850	4945.75
Gross Profit on Sales			2093.27
Deduct:			
Selling Expenses		800	
General Administrative Expenses		579.50	1379.50
Net Profit from Operations			713.77
Add:			
Other Income:			
Discount on Purchases		3049	
Interest on Notes Receivable		150	3207
Total Income			7458.64
Deduct:			
Other Charges:			
Discount on Sales		1050	
Interest on Notes Payable		369	819
Net Profit January 1 to 31, 1919.			7376.55

MODEL 7.—PROFIT AND LOSS STATEMENT.

*J.B. Holland**Balance Sheet, January 31, 19--*

<i>Assets</i>					
<i>Cash</i>				<i>2167.71</i>	
<i>Notes Receivable</i>				<i>2.50</i>	
<i>Accounts Receivable:</i>					
<i>Partridge & Co.</i>	<i>874.62</i>				
<i>B. K. Moore</i>	<i>527.62</i>				
<i>Richard Baker Co.</i>	<i>722.20</i>		<i>2167.44</i>		
<i>Merchandise Inventory</i>		<i>4.50</i>			<i>9410.15</i>
<i>Furniture & Fixtures</i>					<i>7.50</i>
<i>Total Assets</i>					<i>18160.15</i>
<i>Liabilities & Capital</i>					
<i>Notes Payable</i>				<i>1.00</i>	
<i>Accounts Payable:</i>					
<i>Bell & Co.</i>	<i>797.50</i>				
<i>W. W. Macomber</i>	<i>1615</i>				
<i>A. J. Wilkinson</i>	<i>1250</i>		<i>3662.50</i>		
<i>Total Liabilities</i>					<i>4662.50</i>
<i>Capital:</i>					
<i>J.B. Holland:</i>					
<i>Invested</i>	<i>5000</i>				
<i>Withdrawn</i>	<i>242</i>				
<i>Net Investment</i>			<i>4760</i>		
<i>Add:</i>					
<i>Net Profit</i>			<i>707.65</i>	<i>5497.65</i>	
<i>Total Liabilities & Capital</i>					<i>18160.15</i>

MODEL 8.—BALANCE SHEET.

J.B. Holland

Closing Entries, January 31, 1919

3	Sales	494575		
7	Purchases		494575	
	To transfer the cost of goods sold to the Sales account, leaving a balance in the Purchases account equal to the present inventory.			
	31			
3	Sales	709327		
4	Profit & Loss		709327	
	To transfer the gross profit on sales from the Sales account to the Profit & Loss account.			
	31			
4	Profit & Loss	137950		
3	Selling Expenses		800	
3	General Administrative Expenses		57950	
	To transfer the losses to the Profit & Loss account.			
	31			
4	Discount on Purchases	3049		
4	Interest on Notes Receivable	158		
4	Profit & Loss		3207	
	To transfer the other income accounts to Profit & Loss.			
	31			
4	Profit & Loss	819		
4	Discount on Sales		450	
4	Interest on Notes Payable		369	
	To close all other losses to Profit & Loss.			
	31			
4	Profit & Loss	73765		
3	J.B. Holland, Capital		73765	
	To transfer the net profit for the period to the proprietor's account.			

MODEL 9.—CLOSING ENTRIES.

